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Highlights

- In FY 2002, ongoing per-pupil funding for charter students was $4,822 compared to $5,609 for district students. Adding federal start-up grants would bring charter schools to $6,828.
- Legislation has changed the charter school funding formula twice since their inception. The 2003 change increased state funding for charter schools, but eliminated local district funding, causing some schools to gain and some to lose funding.
- Charter schools in high property-tax districts are underfunded compared to the surrounding schools while the opposite is true in low property-tax districts.
- Charter school enrollment is difficult to forecast, leading to funding shortfalls when more students enroll than expected.
- Districts experience a revenue loss of at least $2,874 in state funds per student who leaves for charter schools without commensurate cost reduction.
- As almost 30% of charter school funding has come from Federal start-up grants and the initial group of charter schools is no longer eligible for those funds, some charters may have difficulty making up the shortfall.

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Charter Schools: Can they Survive in Utah?

Introduction

Since Utah passed its charter school law in 1998, the concept of independent public schools empowered with the ability to develop innovative curricula and governance structures has gained increasing popularity. The number of charter schools has grown from eight in the fall of 1999 to 19 in the fall of 2003. However, determining the best way to fund charter schools has not been easy. Legislators have changed charter school finance laws twice in the five years since they were initially passed, and are contemplating doing so again.

This report will explain and explore many different issues in charter school funding. One central question that public and private debates about charter school funding persistently ask is: Are charter schools funded equal to traditional schools? The answer to this question is complex. In some funding categories, charter schools receive the same amount of money as traditional schools, in other categories they do not. More importantly, determining funding equality is difficult because the meaning and substance of "equality" in school funding is open to many different interpretations.

The Charter School Concept

Minnesota passed the nation's first charter school law in 1991, and since then the charter concept has gained extensive support. At the time of this report's publication, 41 states and the District of Columbia had charter school enabling legislation. Utah joined the trend in 1998. Most of Utah's surrounding states have also enabled charter schools, including Nevada, Idaho, Wyoming, Colorado, California, Oregon, New Mexico and Arizona. Arizona leads the nation in the number of charter schools with over 400.

In Utah, charter schools are fully public non-sectarian institutions. They receive almost all of their funding from public sources. Utah law forbids them from charging tuition or selecting students based on merit or ability.[1] If more students apply to a charter school than it has room to educate, the school must select students randomly.[2] Although some schools strongly encourage parental involvement, they cannot legally make it a requirement.

Despite the national charter school movement's emphasis on de-regulation, charter schools in Utah are subject to nearly all of the requirements that apply to ordinary public schools, including core curriculum, reporting, hiring and spending. They may ask the State Board of Education for exemption from some of these requirements, but such exemptions have been rare in the four years charter schools have operated, and the State Board does not have the power to overrule state law. Charter schools can receive their charters from the State Board of Education or from local district boards. As Figure 1 shows, most charter schools in Utah have received their charters from the state. Charter schools are different from traditional schools in several ways. They operate independently of districts and may enroll students from anywhere in the state. Parents may withdraw students at any time. Charter schools generally place a greater emphasis than traditional schools on parent, student and faculty involvement in school governance. Parents and educational advocacy groups

Figure 1

Charter Schools in Utah

Charter School	District	Chartered by	Grades Taught	# of Students	Opening
American Preparatory	Jordan	District	K to 8	418	2003-04
AMES	Granite	State	9 to 10	250	2003-04
CBA Center	Millard	State	6 to 12	40	1999-00
Center City	Salt Lake	State	7 to 10	200	2000-01
Dream School	Granite	District	9 to 12	30	2003-04
Fast Forward	Logan	District	9 to 12	50	2003-04
Freedom Academy	Provo	State	K to 6	350	2003-04
Jean Massieu	Jordan	State	K to 6	40	1999-00
John Hancock	Alpine	State	Kto 7	190	2002-03
Ogden Preparatory Acad.	Ogden	District	K to 8	200	2003-04
Park City Learning Ctr.	Park City	District	10 to 12	35	2001-02
Pinnacle Canyon	Carbon	State	K to 8	340	1999-00
Salt Lake Arts	Salt Lake	State	5 to 8	112	2003-04
Sundance Mountain Academy/Soldier Hollow	Wasatch	State	1 to 7	66	1999-00
Success School	Granite	State/District	8 to 12	103	1999-00
Thomas Edison	Cache	State	K to 6	280	2002-03
Timpanogos Academy	Alpine	State	K to 6	375	2002-03
Tuacahn	Washington	State	9 to 12	160	1999-00
Uintah River	Uintah	State	10 to 12	56	1999-00
19 Schools	14 Districts with Charter Schools	5 District Chartered	9 Secondary Schools	3,295	

Source: Utah State Office of Education, Utah Charter Schools Association.

have founded many of Utah's charter schools. Within the guidelines of basic state regulations, charter schools also pursue unique educational missions. Some schools serve special needs populations. Jean Massieu, for example, educates hearing-impaired children. Fast Forward High, Park City Learning Center, CBA Center, Dream School and Success School all serve students who have had severe academic and disciplinary problems in ordinary schools. Uintah River serves at-risk Ute students. Other schools integrate a subject-specific emphasis into the state core curriculum. Tuacahn High School emphasizes performing arts; Salt Lake Arts Academy offers fine arts-based curriculum and Soldier Hollow School focuses on environmental science and issues. Other schools offer broadly focused philosophical permutations on the core curriculum. American Preparatory Academy, Timpanogos Academy and John Hancock Academy, for instance, all offer the Core Knowledge Sequence, a curriculum plan that attempts to build on knowledge grade by grade.

The Legislature intended charter schools to serve several functions. This report will focus mainly on the status of charter school funding and will not evaluate the validity of these purposes or charter schools' success in fulfilling them. However, any attempt to analyze the "fairness" of charter school funding requires an understanding of the logic behind the schools' creation. According to the Utah Charter Schools Act,[3] the purpose of charter schools is to:

1. Continue to improve student learning;
2. Encourage the use of different and innovative teaching methods;
3. Create new professional opportunities for educators that will allow them to actively participate in designing and implementing the learning program at the school;
4. Increase choice of learning opportunities for students;
5. Establish new models of public schools and a new form of accountability for schools that emphasizes the measurement of learning outcomes and the creation of innovative measurement tools; and
6. Provide opportunities for greater parental involvement in management decisions at the school level.

In addition to these purposes, others have been suggested by charter school advocates, including:

1. Encouraging market-type competition between charter schools and traditional schools;

2. Serving special needs populations;

3. Empowering schools to focus more on educational results than compliance with regulations; and

4. Taking pressure off of high enrollment growth districts by providing additional schools for new students to attend.

Utah's School Funding System

An understanding of charter school finances requires a general understanding of how Utah schools are funded. Utah's public schools receive revenue from three main sources: the federal government, the state and local property taxes.

The federal government's involvement in education funding is not large. Most federal assistance comes in the form of a limited number of categorical grants for specific programs. These include programs such as Title I for students in high-poverty or under-performing schools and programs for food service. The state, through the Uniform School Fund, contributes the largest portion of school funding. Almost all of the USF's revenue comes from corporate and personal income taxes. Under the Minimum School Program Act,[4] the law that governs most school funding in Utah, the state allocates revenue to districts using numerous formulas based on enrollment, student characteristics and school locations. Some of these formulas and their significance to charter schools will be described in more detail later.

Property taxes levied by each district also make up a large portion of school revenue. Districts may levy property taxes for 10 different programs: minimum basic levy, capital outlay, debt service, voted leeway, board leeway, 10 percent additional basic, recreation, special transportation, tort liability; and judgment recovery.

Under the Minimum School Program Act, every district in the state must levy the minimum basic rate in order to qualify for funding from the state's Uniform School Fund (USF).[5] Each year, the Legislature sets the rate at a level that will produce a statutorily specified amount of revenue statewide.[6] In fiscal year 2003, the rate was .001807 per dollar of taxable value. Revenue from the minimum basic rate is counted against the amount of money school districts are eligible to receive from the state. In other words, the state uses its allocation formulas to determine the total amount of money each district deserves and then provides each district the difference between that total amount and the amount raised by the district's basic tax rate. School districts levy the remaining types of property taxes in addition to the basic rate. Local district boards and local voters levy these other taxes at their own discretion, although state law caps some of the rates at certain levels.

Because charter schools cannot levy taxes, there has been considerable debate about how they should receive the property tax portion of school funding. This is one of the central issues in the charter school funding debate and will be discussed in more detail later in this report.

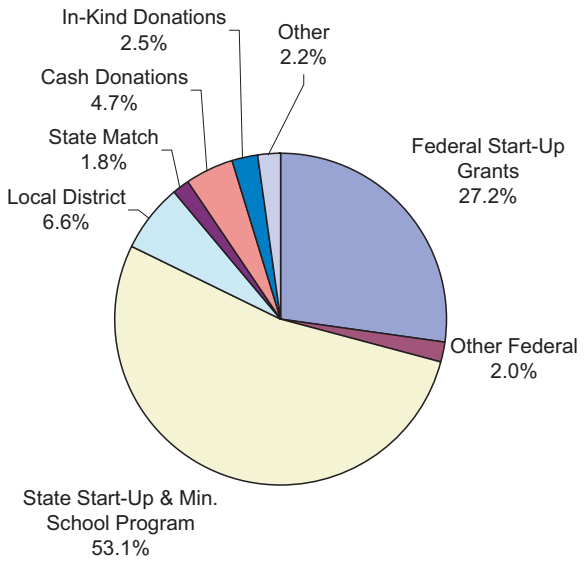
Charter School Funding Sources

Figure 2 provides a breakdown of funding sources for six of Utah's first eight charter schools.[7] It covers the period from fiscal year 2000, the year charter schools first began operating in Utah, to fiscal year 2002, the last year reliable data were available.

To illustrate greater detail on charter school revenues, Figure 3 shows local, state, and federal revenues for all Utah charter schools and all school

Figure 2

Utah Charter School Funding Sources Fiscal Years 2000-2002



Source: Annual Financial Reports and Utah Foundation Survey of Charter Schools.

districts. The figure also provides as examples the same data for Success School and Granite School District. Figure 3 shows that the largest portion of charter school funding came from the state. In addition to the normal yearly funding, the state's portion also includes charter school start-up grants made out of a special appropriation the Legislature approved in 1998 as part of the Utah Charter Schools Act. The state gave each of Utah's eight original charter schools a $62,500 one-time grant. That money has since dried up and has not been replaced.

The second largest portion of funding came from three-year federal Public Charter Schools Program start-up grants. The Utah State Office of Education receives money every year from the U.S. Department of Education to make these grants on a competitive basis. Charter schools may only use the grants for one-time, start-up-related expenses and may not use them to pay ongoing costs such as salaries or leases. Schools are only eligible to receive the grants for their first three years of operation. This means that all of the charter schools that opened in fiscal year 2000—five of the six total in this analysis—did not receive PCSP grants in fiscal year 2003 and will not receive the grants again. This creates some cause for concern, because PCSP grants provided nearly a third of charter schools' total budgets during the period analyzed.

Figure 3 also shows that charter schools have not been successful in raising large amounts of money through donations. Cash and in-kind donations combined made up only seven percent of total revenue. Most schools did, however, benefit from substantial parent volunteer involvement that was not assigned a dollar value in this analysis. In some cases, individual parents performed important day-to-day administrative and secretarial work for more than 20 hours per week. In such cases, parental involvement was assigned a fair market value and listed as an in-kind donation.

Charter schools also received money from districts and the state to make up for their inability to directly access property tax revenue. Figure 2 shows that this local levy replacement money (shown as "local district" and "state match" in the pie chart) made up a small portion of school revenue. Because this chart is based on three fiscal years' data, it underestimates how much charter schools rely on the local levy replacement, because the state did not begin matching local levy replacement money from districts until fiscal year 2002, the final year in the chart data. This means that charter schools received nearly twice as much local levy replacement money in fiscal year 2002 as they did in 2000 and 2001; in fact, in 2002, local levy replacement revenues totaled 11 percent of these schools' revenue. Additionally, as will be described below, the state changed the way it calculated and funded the local levy replacement in 2003 to increase the amount of money flowing to charter schools.

Comparing Charter and Traditional School Funding

Figure 3 compares funding from the six charter schools described above to all districts and compares Success Charter School (as a typical charter school) to Granite District,[8] where it is situated. For various reasons, this analysis draws on several different data sources. Tax revenues were calculated with data from the State Office of Education in a method that

will be described in more detail later in this report. All of the figures for the Minimum School Program came from the State Office of Education.[9] Charter school data in other areas came mostly from a Utah Foundation survey of charter school officials. The remainder came from Annual Financial Reports.[10] Revenues from the Food Services and Non-K-12 funds were excluded, because charter schools do not provide qualifying programs in these areas and because they are not related to K-12 instruction. In many instances, there are reasons to doubt the reliability of charter school data. This analysis, therefore, is best taken as an estimate, rather than an exact determination of school revenues.

Figure 3 shows that in fiscal year 2002, charter schools received $6,828 per student in funding from all sources. Districts received $5,609 per student. Most of the additional money charter schools received came from Federal PCSP start-up grants, which last only three years. If the start-up grants are subtracted, charter schools fall below ordinary districts in per-pupil funding, down to $4,822 per pupil.

This comparison (which uses data from 2002) may underestimate charter schools' current per pupil funding. As will be described below, the Legislature altered the calculation of the local levy replacement in 2003 to increase the amount of money charter schools were receiving and to include funds for debt service and capital outlay. Additionally, beginning in fiscal year 2003, charter schools have received administrative funding that is not included here.

Charter school and traditional school funding are not fully comparable because districts provide many programs that charter schools do not provide and

Figure 3

2002 Funding Comparison by Revenue Sources

Charter Schools and Districts

	Funding Source	All Charters	All Districts	Success School	Granite District
1	**MAINTENANCE & OPERATION**				
2	**Local Sources**	**$459,761**	**$458,452,210**	**$44,194**	**$68,057,819**
3	Property Taxes	0	390,215,137	0	60,600,634
4	Property Tax Replacement District	276,555	0	26,789	0
5	Property Tax Replacement State Match	167,724	0	17,405	0
6	Earnings on Investments	8,127	17,913,136	0	1,756,497
7	Other	7,355	50,323,937	0	5,700,688
8					
9	**State Sources**	**$1,853,467**	**$1,615,918,942**	**$189,192**	**$257,034,490**
10	Regular Basic Program	1,192,693	843,548,114	97,029	150,266,472
11	*Restricted Basic Program*				
12	Special Education	93,314	142,137,858	46,622	21,516,326
13	Class Size Reduction	66,244	62,518,688	785	9,201,814
14	Applied Technology	0	51,655,792	0	5,934,936
15	Social Security & Retirement	254,279	214,408,481	22,101	30,642,163
16	State Block Grants	123,557	118,349,183	10,192	16,970,791
17	*Special Populations*				
18	At-Risk Regular	3,322	5,374,265	280	830,846
19	Other At-Risk	0	19,355,823	0	5,037,786
20	Accelerated Learning Gifted and Talented	1,936	1,857,309	160	266,022
21	Other Accelerated Learning	0	7,393,765	0	1,040,716
22	Other Special Populations	0	9,426,241	0	1,809,212
23	Transportation	0	54,322,792	0	5,306,020
24	One-Time Bills	95,952	22,608,148	9,999	3,202,958
25	Experimental/Developmental	0	2,059,611	0	413,000
26	School Land Trust	18,142	5,960,689	2,024	815,848
27	Board and Voted Leeway Guarantees	0	20,447,986	0	0
28	Miscellaneous	4,028	10,875,018	0	576,622
29	Other	0	23,619,179	0	3,202,958
30					
31	**Federal Sources**	**$1,327,676**	**$156,503,837**	**$131,310**	**$20,739,075**
32	Charter School Start-Up Grants (PCSP)	1,131,735	0	131,310	0
33	Other Federal	195,941	156,503,837	0	20,739,075
34					
35	**TOTAL M&O FUNDING**	**$3,640,904**	**$2,230,874,989**	**$364,696**	**$345,831,384**
36					
37	**DEBT SERVICE FUND**				
38	Property Taxes	0	171,685,954	0	0
39	Other Local, State Sources	0	1,672,131	0	0
40	**Debt Service Total**	**$0**	**$173,358,085**	**$0**	**$0**
41					
42	**CAPITAL PROJECTS FUND**				
43	Property Taxes	0	201,376,469	0	43,958,073
44	Other Local	0	17,121,090	0	912,090
45	Capital Outlay Foundation (State)	0	21,528,414	0	0
46	Other State	0	10,414,251	0	2,429,708
47	**Capital Projects Total**	**$0**	**$250,440,224**	**$0**	**$47,299,871**
48					
49	**DONATIONS**	**$211,411**	**$0**	**$5,839**	**$0**
50					
51	**GRAND TOTAL**	**$3,852,315**	**$2,654,673,298**	**$370,535**	**$393,131,255**
52	2002 Average Daily Membership	564	473,270	74	69,000
53	Per-Student Funding	6,828	5,609	5,011	5,698
54	Total minus PCSP Start-Up Grants	2,720,580	2,654,673,298	239,225	393,131,255
55	Per-Student Funding Minus Start-Up Grants	$4,822	$5,609	$3,235	$5,698

Sources: All tax revenue data taken from the State Office of Education's data archives. Tax revenue corresponds to the State Office column in Figure 9. Lines 10-27 taken from State Supported Minimum School Program for Utah Public Schools pre-final booklet. For charter schools, lines 4-5 and 28-49 taken from Utah Foundation surveys sent directly to charter schools. Enrollment numbers taken from State Office. All other data from 2002 School District Annual Financial Reports.

Notes on line items:

3 Includes basic levy, board and voted leeways, special transportation, Utah government immunity (tort liability) and judgement recovery. Fees in lieu of taxes are included in each tax, not as a separate line item.

7 Tuition, transportation fees, local governmental units other than LEAs, student activities, other revenues from local sources and textbooks. Some erroneous charter school entries in the AFR in these categories were subtracted.

10 Kindergarten, 1-12, Necessarily Existent Small Schools, Professional Staff and Administrative Costs. Charters did not begin receiving Administrative Cost money until FY2003. Basic levy revenue subtracted for traditional schools.

12 Special Ed Preschool not included because it is accounted for in the non-K-12 programs fund.

16 Quality Teaching (Professional Development and Professional Development Days) and Local Discretionary block grants.

22 Does not include Adult Education.

23 Pupil Transportation and Transportation Levy Guarantee.

24 For charter schools includes Education Technology Initiative, Staff Development, Library Media and Teachers' Supplies and Materials. For traditional districts also includes ATE Equipment, Schools for the 21st Century, Advanced Readers-at-Risk and SB 171 Retirement Benefits.

28 Includes Incentives for Excellence, Reading Initiative, Truancy Intervention, Character Education, School Nurse Program, Alternative Middle Schools, Contingency Funds, Inservice Education, Centennial Schools-Strategic Planning, Driver Education Behind the Wheel and revenues from other state agenices. All of the charter school revenue in this category came from other state agencies.

29 Other State Revenues (Non-MSP) and Revenues from Other State Sources.

38 Debt service tax. Calculated using same method as other taxes.

43 Capital Outlay, Voted Capital and all Ten Percent Additional Basic Taxes.

vice versa. For example, transportation funding is included in this analysis, even though charter schools do not operate to-and-from school transportation programs and very few charter schools could feasibly do so. Applied Technology Education funds are also included, despite the fact that no charter schools received grants from the program.

In fact, the difficulty of comparing charter and traditional school funding raises an important point worth considering carefully. Charter schools received very little money in 2002 from programs for which they did not automatically qualify based on enrollment. For example, charters received funding similar to traditional schools for the Accelerated Learning Gifted and Talented Program—a program for which all schools qualify based entirely on average daily membership. But they did not receive any money from other accelerated learning programs, even though these "other" programs made up the bulk of traditional schools' accelerated learning funding. The same story holds true with At-Risk programs, where charters receive funds from the Regular At-Risk program, but not from other programs. Charter schools also did not receive much money from federal categorical grant programs aside from the PCSP start-up grants.

This is due primarily to the fact that many state and federal grants fund specific populations and programs that charter schools do not have. For example, there is an Accelerated Learning Program to fund concurrent enrollment courses taken by high school students at local colleges. Charter schools do not offer qualifying programs and therefore do not receive any money. Many grants are also made on a competitive basis, and even if charter schools may be allowed to compete for the grants, they lack the economies of scale and the administrative resources to compete for them successfully. Charter schools are hampered by their independence from districts, because they cannot put together large-scale proposals and they do not have large enough populations of particular student sub-groups to qualify for programs aimed at those groups.

This raises a difficult question about what constitutes "equality." Figure 3 shows that total charter school funding is not the same as traditional school funding on a per-pupil basis. In this sense, charter schools do not experience an equality of outcome with ordinary schools. But it may not be possible or even desirable to create an equality of outcome, since many of the state's grant programs are designed to further specific purposes that charter schools do not fill. A more relevant approach to the question of equality, therefore, may be to ask whether charter schools have the same funding opportunities as traditional schools. In other words, we can ask whether charter schools have access to the same basic funding sources as ordinary schools without asking whether they actually receive the same amount of money.

Figure 4

1998 Local Levy Calculation System

	Components of Funding Calculation	Fiscal Year 2002 Wasatch	Alpine	Park City
1	**Total Expenditures Before Interfund Transfers**:			
2	Maintenance and Operation Fund	$18,676,184	$202,744,607	$23,931,900
3	Capital Outlay Expenditures	2,507,625	40,846,429	7,186,559
4	Less-New Square Foot Construction	-164,434	-8,471,886	-489,612
5	Less-Site Acquisition	0	-3,526,058	-28,084
6	Less-Remodeling	-1,473,376	-22,183,200	-5,371,312
7	Subtotal (3 through 6)	869,815	6,665,285	1,297,551
8	Total (2 + 7)	$19,545,999	$209,409,892	$25,229,451
9	**Less Revenues:**			
10	Tax Revenue from Minimum Basic Rate	$1,753,857	$16,366,640	$9,664,433
11	State Revenue (M&O + Capital Projects Fund)	13,438,109	170,581,216	5,407,502
12	Federal Revenue (M&O + Capital Projects Fund)	1,139,970	8,495,671	849,681
13	Total (10 through 12)	16,331,936	195,443,527	15,921,616
14	**Difference** (8 minus 13)	3,214,063	13,966,365	9,307,835
15	2002 Average Daily Membership	3,797	48,118	3,889
16	Per-Student Local Expenditure	846	290	2,393
17	50% of Local	423	145	1,197
18	State Match	397	145	397
19	**Total Local Funds per Charter Student**	$820	$290	$1,594

Source: Utah State Office of Education.

The Local Levy Problem

Determining whether charter schools have access to the same funding sources as traditional schools is not easy. The largest and most confusing problem has been figuring out how to make up for charter schools' inability to access property tax revenue. Most people agree that charters should receive some sort

of replacement for the property tax revenue ordinary districts receive. But "property tax revenue" has a multiplicity of meanings, and different ways of calculating it produce widely different results.

Legislation[11] has addressed the local levy problem three times: in 1998, 2001 and 2003. In 1998, the Legislature established a system under which school districts contributed half of their calculated per-pupil local levy revenue to charter schools for each student enrolled in a charter school. School districts' local levy revenue was calculated as the difference between districts' total expenditures and their total non-local levy revenues (including revenue from the minimum basic tax). In other words, the formula took the total amount of money districts were spending, subtracted the amount of revenue they received from non-local sources and the minimum basic tax and assumed that the difference was the amount of money coming from the local levy. Figure 4 provides a breakdown of this system for Alpine, Wasatch and Park City School Districts for fiscal year 2002. Each of these districts has at least one charter school; Alpine is among the districts receiving the least per-pupil local levy revenue in the state, Park City receives the most, and Wasatch falls near the middle. Under this first system, the State Office of Education excluded funds for debt service and capital outlay in its calculation of the local levy. The State Office calculated the formula this way based on the idea that capital facilities were fixed expenditures not affected by changes in enrollment. The State Office therefore did not feel funds for capital and debt service should leave school districts.

In 2001, the state began matching local districts' payments to charter schools up to 50 percent of the "unweighted" statewide average. In this case "unweighted" refers to the state's method of calculating the statewide average by taking the sum of each district's per-pupil local levy amount and dividing it by the number of districts in the state. This means that large districts and small districts are weighted equally in the calculation of the average. The Legislature did not make any changes in 2001 to the way the local levy was calculated. The state match is shown as line 18 in Figure 4. The state match on local district contributions significantly increased revenues for charter schools and costs for the state.

In 2003, the Legislature overhauled the local levy replacement statute. Figure 5 details the system created to calculate property tax replacement funds in 2003. The most significant change in the 2003 system was that the state completely took over local levy replacement. The state allowed districts to keep all of their property tax revenue and the state funded all charter schools at 100 percent of the calculated statewide weighted average. The Legislature also made significant changes to the way the local levy was calculated. Instead of using the 1998 system's complex mix of revenues and expenditures, the 2003 system calculated local levy funding almost entirely on the revenue side of the ledger. It calculated local levy funding by simply adding up revenue from different property taxes.

Unlike the 1998 system, the 2003 system included revenue from the capital projects tax and partially

Figure 5

2003 Property Tax Replacement Funding Formula

	Components of Funding Calculation	Property Tax Components
1	**Maintenance and Operation Property Tax Revenue**	
2	Voted and Board Leeway and Basic Levy Taxes	$339,387,893
3	Transportation Tax	10,296,022
4	Tort Liability Tax	3,049,714
5	Judgement Recovery	1,132,601
6	Fee-In-Lieu of Taxes	36,551,074
7	Penalties on Taxes	1,655,455
8	Other Taxes	2,031,129
9	*State Gurantees on Property Taxes**	
10	Less Basic Levy	-206,375,916
11	Less Tax Refunds	-142,578
12	Subtotal	$187,585,394
13		
14	**Capital Projects Fund**	
15	Capital Outlay and 10 Percent Additional Basic Taxes	$181,867,827
16	Judgement Recovery	132,316
17	Fee-In-Lieu of Taxes	20,706,865
18	Penalties on Taxes	852,932
19	Less Tax Refunds	-54,027
20	Subtotal	$203,505,913
21		
22	**Debt Service Fund**	
23	Interest Expenditures	$65,553,755
24	*Debt Service Tax*	
25	*Judgement Recovery*	
26	*Fee-In-Lieu of Taxes*	
27	*Penalties on Taxes*	
28	*Less Tax Refunds*	
29	Subtotal	$65,553,755
30		
31	**Total**	$456,645,062
32	2002 K-12 Average Daily Membership	473,270
33	Per-Pupil Average Local Property Tax Revenue	$965

* Includes guarantees on Board Leeway, Voted Leeway, Capital Foundation and Special Transportation.
Source: Utah State Office of Education.

Figure 6

A Comparison of District Local Levy Revenue to the State Weighted Average for Charter Schools

District	2003 Formula Local Per-Pupil Revenue	Difference from Average
Alpine*	$620	-$345
Beaver	1,320	355
Box Elder	528	-437
Cache*	535	-430
Carbon	1,205	240
Daggett	2,475	1,510
Davis	666	-299
Duchesne	908	-57
Emery	2,099	1,134
Garfield	1,449	484
Grand	1,593	628
Granite*	1,081	116
Iron	1,051	86
Jordan*	1,190	225
Juab	819	-146
Kane	952	-13
Millard*	2,002	1,037
Morgan	756	-209
Nebo	679	-286
No. Sanpete	553	-412
No. Summit	1,050	85
Park City*	4,049	3,084
Piute	574	-391
Rich	1,321	356
San Juan	956	-9
Sevier	637	-328
So. Sanpete	680	-285
So. Summit	1,452	487
Tintic	405	-560
Tooele	825	-140
Uintah*	997	32
Wasatch*	537	-428
Washington*	816	-149
Wayne	1,017	52
Weber	629	-336
Salt Lake*	1,853	888
Ogden*	1,027	62
Provo*	844	-121
Logan*	1,014	49
Murray	1,247	283
State Average	$965	

* Districts with charter schools.
Source: Ibid.

included debt service funds. Capital projects revenue was included by simply adding revenue from the capital projects property tax to the total. Debt service was included by adding in districts' expenditures on interest. This method of calculating debt service funds deliberately excluded expenditures for redemption of principal. The Legislative Fiscal Analyst's Office recommended excluding expenditures on principal redemption in order to avoid double-counting revenue from bond sales. The Analyst believed that bond revenue was included in both the capital projects fund and in expenditures on redemption of principal. However, it was subsequently realized after the 2003 amendment's passage that bond revenue was actually not included in either place.

Issues in the 2003 System

The 2003 system raises several sets of issues. The first set of issues relates to the Legislature's decision to fund the local levy replacement equally for all charter schools in the state. This decision hurt some schools and helped others. Although each charter school received a greater amount of state funding, for some, the loss of local property tax revenue was much greater than the gain in state funding. Charter schools in districts with low local levy revenue benefited and charter schools in more property tax-wealthy districts were harmed. Figure 6 compares each district's local levy revenue under the 2003 formula to the weighted state average. The disparate impact of the move to the statewide average has created disagreement among charter school operators, and it is thus a continued topic of concern.

Additionally, the state's decision to fund charter schools at the state average has affected the basis on which they compete with ordinary school districts. Charter schools in high-property tax districts are underfunded compared to surrounding schools, and charter schools in low-tax districts are overfunded. Funding all charter schools at the state average is thus not in keeping with the market competition paradigm that animates much of the charter school movement. The statewide average system may even encourage unanticipated market outcomes. Under the system, charter schools have an incentive to open in districts with low property tax revenue. These are the districts that will have a harder time competing with charter schools because of differences in per pupil funding.

Another issue raised by the decision to fund local levy replacement at the state level is that it spreads the financial burden for charter schools to all districts in the state, rather than concentrating it in the districts with charter schools. The amount of money in the state's uniform school fund is essentially fixed, since nearly all of the revenue in it is statutorily earmarked specifically for public school funding. This means that charter school local levy replacement money must be taken from programs that fund all districts equally. In other words, all districts experience funding reductions whether they have charter schools or not.

Spreading the burden in this way raises fairness issues, because only the districts with charter schools could theoretically save money as a result of students leaving for charter schools. Districts without charter schools could conceivably argue that they should not be forced to subsidize districts with them.

The statewide average funding system also raises equality issues. It produces inequalities of outcome between districts and charter schools, since they do not receive the same amount of property tax revenue per pupil. This is inconsistent with some policymakers' and advocates' vision of charter school funding "parity."

The second set of issues relates to debt service. Senator Howard Stephenson, co-chair of the Legislative Interim Education Committee, has suggested calculating debt service funds by including revenue from the debt service property tax rather than expenditures on interest. In 2002, revenue from the debt service property tax totaled $171,814,680 and expenditures on interest were $65,553,755. Figure 7 shows that Sen. Stephenson's proposal would have a significant impact on the per-pupil weighted average. Lines 24 to 28 add debt service tax revenues from the 2002 Annual Financial Reports and line 33 shows that the total weighted statewide average would jump from $965 per pupil to $1,189 per pupil if debt service were added.

The third issue relates to guarantees that the state provides on some property taxes to produce minimum amounts. This is intended to ensure that districts with low property values can raise sufficient funds through property taxes. The state provides matching guarantees on the board and voted leeway taxes, the special transportation tax and capital and debt service taxes (through the Capital Outlay Foundation Program). Each of these guarantee programs ties funding directly to property tax rates and provides money that districts use in the exact same way as property tax revenue. Charter schools in districts that qualify for these guarantees cannot access the guarantees because they cannot access property taxes. A statewide average that aims to include all property tax revenue sources may therefore need to include these guarantees. Column C of Figure 7 adds in the appropriations for each of these guarantees.

Figure 7

Comparison of Alternatives to 2003 Property Tax Replacement Formula

	Revenue Source	2003 Formula	Including Debt Service	Including Debt Service & State Guarantees
		A	B	C
1	**Maintenance and Operation Property Tax Revenue**			
2	Voted and Board Leeway and Basic Levy Taxes	$339,387,893	$339,387,893	$339,387,893
3	Transportation Tax	10,296,022	10,296,022	10,296,022
4	Tort Liability Tax	3,049,714	3,049,714	3,049,714
5	Judgement Recovery	1,132,601	1,132,601	1,132,601
6	Fee-In-Lieu of Taxes	36,551,074	36,551,074	36,551,074
7	Penalties on Taxes	1,655,455	1,655,455	1,655,455
8	Other Taxes	2,031,129	2,031,129	2,031,129
9	*State Gurantees on Property Taxes**			44,847,643
10	Less Basic Levy	-206,375,916	-206,375,916	-206,375,916
11	Less Tax Refunds	-142,578	-142,578	-142,578
12	Subtotal	$187,585,394	$187,585,394	$232,433,037
13				
14	**Capital Projects Fund**			
15	Capital Outlay and 10 Percent Additional Basic Taxes	$181,867,827	$181,867,827	$181,867,827
16	Judgement Recovery	132,316	132,316	132,316
17	Fee-In-Lieu of Taxes	20,706,865	20,706,865	20,706,865
18	Penalties on Taxes	852,932	852,932	852,932
19	Less Tax Refunds	-54,027	-54,027	-54,027
20	Subtotal	$203,505,913	$203,505,913	$203,505,913
21				
22	**Debt Service Fund**			
23	Interest Expenditures	$65,553,755		
24	*Debt Service Tax*		$156,960,108	$156,960,108
25	*Judgement Recovery*		114,878	114,878
26	*Fee-In-Lieu of Taxes*		13,756,313	13,756,313
27	*Penalties on Taxes*		1,109,905	1,109,905
28	*Less Tax Refunds*		-126,524	-126,524
29	Subtotal	$65,553,755	$171,814,680	$171,814,680
30				
31	**Total**	$456,645,062	$562,905,987	$607,753,630
32	2002 K-12 Average Daily Membership	473,270	473,270	473,270
33	Per-Pupil Average Local Property Tax Revenue	$965	$1,189	$1,284
34	Estimated 2004 Charter School Enrollment	3,295	3,295	3,295
35	Total Cost to the State**	$3,179,254	$3,919,064	$4,231,302
36	Difference from 2003 Formula	NA	$739,810	$1,052,048

* Includes guarantees on Board Leeway, Voted Leeway, Capital Foundation and Special Transportation.

**Total Cost to the State assumes full funding of actual charter school enrollment, although 2003 funding is less because enrollment was underestimated when appropriations were made.

Source: Utah State Office of Education. Calculations by Utah Foundation.

The fourth issue concerns the data sources used for calculating property tax revenue. The Legislative Fiscal Analyst's Office and the State Office of Education used a mix of districts' 2002 Annual Financial Reports (AFRs) and data from the State Office of Education to calculate property tax revenue. Relying entirely on the State Office of Education's data may have some advantages. The fiscal analyst added all of the property tax revenue from the 2002 AFRs for a total of $393,961,310 and then subtracted basic levy revenue to determine the amount of property tax revenue that was local to districts. The Annual Financial Reports do not include basic levy revenue, however, so the fiscal analyst needed to use the State Office's data. This means that the data came from two sources. This is a problem because the Annual Financial Reports and the State Office's data do not agree completely on how much tax revenue was raised in 2002. The differences stem from inconsistencies across districts in how revenues are reported, differences in timing between the state and district reports and the fact that the state

Figure 8

Final Tax Rate Proceeds for 2001-02 Basic Rate

District	Total Taxes Collected During FY 2002 A	Total Local School District Levy B	Basic Levy Tax Rate C	Basic Rate Percent of Total Rate D (B/C)	Basic Rate Yield E (DxA)
Alpine*	$53,894,729	0.006769	0.001785	26.3702%	$14,212,159
Beaver	3,192,864	0.007546	0.001785	23.6549%	755,269
Box Elder	13,276,691	0.006320	0.001785	28.2437%	3,749,825
Cache*	12,396,285	0.006452	0.001785	27.6658%	3,429,536
Carbon	9,701,967	0.006110	0.001785	29.2144%	2,834,372
Daggett	781,525	0.004715	0.001785	37.8579%	295,869
Davis	69,887,329	0.007600	0.001785	23.4868%	16,414,325
Duchesne	5,215,286	0.007922	0.001785	22.5322%	1,175,118
Emery	10,386,848	0.007649	0.001785	23.3364%	2,423,914
Garfield	2,478,423	0.007396	0.001785	24.1347%	598,159
Grand	4,008,669	0.006313	0.001785	28.2750%	1,133,451
Granite*	106,680,142	0.006487	0.001785	27.5166%	29,354,716
Iron	13,354,506	0.007902	0.001785	22.5892%	3,016,679
Jordan*	135,632,382	0.008424	0.001785	21.1895%	28,739,769
Juab	3,359,773	0.008070	0.001785	22.1190%	743,147
Kane	2,713,750	0.004861	0.001785	36.7208%	996,512
Millard*	11,495,355	0.005355	0.001785	33.3333%	3,831,785
Morgan	2,883,174	0.004963	0.001785	35.9662%	1,036,967
Nebo	26,734,183	0.007946	0.001785	22.4641%	6,005,602
No. Sanpete	2,315,987	0.005617	0.001785	31.7785%	735,987
No. Summit	2,259,149	0.006023	0.001785	29.6364%	669,530
Park City*	28,257,623	0.005555	0.001785	32.1332%	9,080,081
Piute	373,505	0.006159	0.001785	28.9820%	108,249
Rich	1,501,071	0.005871	0.001785	30.4037%	456,381
San Juan	4,380,494	0.008200	0.001785	21.7683%	953,559
Sevier	5,464,304	0.007312	0.001785	24.4119%	1,333,942
So. Sanpete	2,774,185	0.008104	0.001785	22.0262%	611,047
So. Summit	6,258,103	0.005898	0.001785	30.2645%	1,893,984
Tintic	258,364	0.008749	0.001785	20.4023%	52,712
Tooele	15,366,579	0.009290	0.001785	19.2142%	2,952,567
Uintah*	8,785,914	0.005621	0.001785	31.7559%	2,790,048
Wasatch*	9,140,429	0.005731	0.001785	31.1464%	2,846,914
Washington*	34,889,434	0.006743	0.001785	26.4719%	9,235,896
Wayne	838,196	0.004839	0.001785	36.8878%	309,192
Weber	29,171,832	0.005764	0.001785	30.9681%	9,033,956
Salt Lake*	77,763,392	0.005585	0.001785	31.9606%	24,853,655
Ogden*	19,602,579	0.007476	0.001785	23.8764%	4,680,390
Provo*	20,033,762	0.005657	0.001785	31.5538%	6,321,419
Logan*	9,614,020	0.006800	0.001785	26.2500%	2,523,680
Murray	13,792,399	0.005882	0.001785	30.3468%	4,185,554
TOTAL or AVERAGES	$780,915,201	0.006642	0.001785	27.7227%	$206,375,916

Source: Utah State Office of Education and Utah State Auditors Office.

Figure 9

State Office Tax Collection vs. Annual Financial Reports FY 2002

Revenue Source	Ann'l Fin. Rpts.	USOE	Difference
Maintenance & Operation Fund			
Basic Levy	$206,375,916	$206,375,916	$0
Voted & Board Leeways	133,011,977	164,919,294	-31,907,317
Special Transportation	10,296,022	12,784,620	-2,488,598
Tort Liability	3,049,714	3,777,065	-727,351
Judgement Recovery	1,132,601	2,358,243	-1,225,642
Fee-In-Lieu of Taxes	36,551,074	0	36,551,074
Penalties on Taxes	1,655,455	0	1,655,455
Other Taxes	2,031,129	0	2,031,129
Capital Projects Fund			
Capital Outlay and 10 Percent Additional Basic	$181,867,827	$201,376,469	-$19,508,642
Judgement Recovery	132,316	0	132,316
Fee-In-Lieu of Taxes	20,706,865	0	20,706,865
Penalties on Taxes	852,932	0	852,932
Less Tax Refunds	-54,027	0	-54,027
Debt Service Fund			
Debt Service	$156,960,108	$171,685,954	-$14,725,846
Judgement Recovery	114,878	0	114,878
Fee-In-Lieu of Taxes	13,756,313	0	13,756,313
Penalties on Taxes	1,109,905	0	1,109,905
Less Tax Refunds	-126,524	0	-126,524
Totals	$769,424,481	$763,277,560	$6,146,921
Total less basic levy	563,048,565	556,901,644	6,146,921
2002 Average Daily Membership	473,270	473,270	
Property Tax Revenue Per Pupil	1,189	1,177	
Estimated fiscal year 2004 Charter Enrollment	3,295	3,295	
Total State Cost for Charter Enrollment	$3,917,755	$3,877,260	

Source: Ibid.

does not include interest earned while tax revenue is in bank deposits or federal forestry revenues.

All property tax revenue could be calculated with the same method the State Office of Education uses to calculate basic levy revenue. Figure 8 shows how the state makes this calculation. It takes the total amount of revenue raised by property taxes (including penalties on taxes and fees in lieu of taxes) and multiplies it by the ratio of the basic property tax to districts' total tax rates. In other words, it determines the proportion of total tax rate that came from the basic levy and multiplies that by the total taxes collected. This same method can be used for calculating all of the other property taxes, such as voted and board leeway taxes.

Figure 9 shows how much money each tax raised according to the state's data and according to the Annual Financial Reports. The difference between the grand totals is small—only $6,004,343. But using the state's data might be advantageous, because it is more consistent across districts and it doesn't involve mixing sources. It also may more accurately isolate specific fiscal years (as opposed to holdover or carry-forward funds) and may better isolate revenue collected from property taxes, rather than interest collected on investments of the revenue from those taxes.

The fifth issue concerns whether the local levy replacement should be funded at the "weighted" or "unweighted" per-pupil state average. The 2003 statute is very clear that the average must be calculated using the "weighted" formula. However, there is a strong past precedent for using an "unweighted" average and policymakers may want to consider the issue again. "Weighted" in this context refers to the way the State Office of Education and the Legislative Fiscal Analyst's Office have calculated the statewide average under the 2003 system. They found the average by calculating the total revenues of all districts and dividing it by the total average daily membership of all districts. This may not be a true "weighted" average, but there is no better term to describe it. "Unweighted" refers to the way the State Office and the Fiscal Analyst's Office calculated the average under the 1998 system. In order to find the statewide average, the State Office and the Fiscal Analyst's Office calculated the per-pupil local levy for each district and divided the total per-pupil local levy of all districts (counting each individual district equally) by the number of districts. This system was used to calculate the state match on the local levy replacement in fiscal years 2002 and 2003.

These differences are not an arcane mathematical issue. The disparity between the 1998 and 2003 calculations is nearly as fiscally significant as the debt service debate. The "weighted" average of the 2003 system is $965 per pupil. The "unweighted" average is $1,110—$145 more than the "weighted" average and just $79 less per pupil than the amount debt service would add.

Other Charter School Finance Issues

Enrollment Estimation

Even though the 2003 Legislature altered the way the local levy was calculated in order to provide charter schools more funding, problems in estimating enrollment mean that charter schools will actually receive much less in financial year 2004 than the statutory formula calls for. The Legislature appropriated $2,377,172 for local levy replacement—enough to fund the prior year's enrollment plus growth of 800 students.[12] However, at the time of this report's publication it appeared that actual enrollment growth would total approximately 1,769 students. The result is that although the State Office of Education believes the statutorily called for local levy replacement level is $965 per student, actual funding will be approximately $721 per student. Figure 10 shows how the difference will affect each charter school.

Figure 10

Property Tax Funding Differences for FY 2004 due to Under-Estimating Enrollment

Charter School	Enrollment	Property Tax Funds @ $721/Pupil	Property Tax Funds @ $965/Pupil	Difference
American Preparatory	418	$301,565	$403,370	-$101,805
AMES	250	180,362	241,250	-60,888
CBA Center	40	28,858	38,600	-9,742
Center City	200	144,290	193,000	-48,710
Dream School	30	21,643	28,950	-7,307
Fast Forward	50	36,072	48,250	-12,178
Freedom Academy	350	252,507	337,750	-85,243
Jean Massieu	40	28,858	38,600	-9,742
John Hancock	190	137,075	183,350	-46,275
Ogden Preparatory Acad.	200	144,290	193,000	-48,710
Park City Lrnng Cntr	35	25,251	33,775	-8,524
Pinnacle Canyon	340	245,292	328,100	-82,808
S.L. Arts	112	80,802	108,080	-27,278
Soldier Hollow	66	47,616	63,690	-16,074
Success School	103	74,309	99,395	-25,086
Thomas Edison	280	202,006	270,200	-68,194
Timpanogos Academy	375	270,543	361,875	-91,332
Tuacahn	160	115,432	154,400	-38,968
Uintah River	56	40,401	54,040	-13,639
Totals	3,295	$2,377,172	$3,179,675	-$802,503

Source: State Office of Education and Legislative Fiscal Analyst.

Charter school enrollment is notoriously difficult to predict. Unlike large and well-established traditional school districts' enrollment, charter schools' enrollment fluctuates rapidly as new schools receive charters and existing schools decide to expand. The techniques used by economists to project growth for ordinary schools thus cannot be applied to charter schools.

Much of the problem stems from the State Board of Education and local districts' willingness to approve charters for new schools to open in the fall after the general legislative session ends in March. This means that the Legislature cannot get an accurate student count when it makes appropriations. New charter schools approved after the legislative session can push enrollment beyond the funded amount, reducing the amount of per-pupil money that all charter schools receive. This problem effectively makes the debate about the local levy replacement calculation irrelevant, since the real question is how many students the Legislature is willing to fund.

The State Board of Education is now taking steps to require charter applicants to get approval before the legislative general session if they plan to open the following fall. This will make enrollment in state-chartered schools easier to predict as well as force applicants to spend more time preparing to open their schools. However, this does not solve the problem of local districts approving charters. Local districts are beyond the regulatory reach of the State Office of Education and they may continue to grant charters after the general legislative session.

Facilities Financing

Finding adequate school buildings poses a significant challenge to charter schools. Many charter schools operate out of inadequate facilities and facilities not designed to function as schools, such as strip malls or office buildings. Most charter schools lease their buildings, and no charter school has yet put together a loan package allowing them to purchase a facility.

Figure 11

Enrollment for Districts and Charter Schools

District	2003-04 Enrollment Projection	Rank
Jordan	74,412	1
Granite	68,937	2
Davis	60,143	3
Alpine	50,740	4
Weber	28,601	5
Nebo	24,187	6
Salt Lake	24,110	7
Washington	19,927	8
Ogden	13,410	9
Provo	13,208	10
Cache	13,162	11
Box Elder	10,614	12
Tooele	10,597	13
Iron	7,378	14
Murray	6,218	15
Logan	5,897	16
Uintah	5,515	17
Sevier	4,256	18
Wasatch	4,179	19
Park City	4,070	20
Duchesne	3,942	21
Carbon	3,782	22
Charter Schools	**3,295**	**23**
Millard	3,041	24
San Juan	2,928	25
So. Sanpete	2,818	26
No. Sanpete	2,510	27
Emery	2,405	28
Morgan	1,946	29
Juab	1,902	30
Beaver	1,475	31
Grand	1,423	32
So. Summit	1,348	33
Kane	1,189	34
Garfield	1,033	35
No. Summit	958	36
Wayne	502	37
Rich	469	38
Piute	301	39
Tintic	263	40
Daggett	127	41
Total	487,218	

Source: State Office of Education.

The 2003 Legislature took two steps to alleviate this problem. First, it increased charter school funding by changing the calculation of the local levy formula to include capital outlay tax revenue and some debt service funding. This was significant since these sources provide most of the revenue for facilities costs in ordinary school districts. Second, the Legislature created the Charter School Capital Outlay Revolving Loan Program, also known as the Charter School Building Sub-account in the Capital Outlay Program. The Legislature appropriated $2,000,000 to this fund and empowered the State Board of Education to make loans to charter schools for facilities.

However, charter schools still face major obstacles in procuring adequate facilities. The primary obstacle is their unclear legal status. The Utah Charter Schools Act does not specifically empower charter schools to borrow money or define them as a type of agency empowered to bower money elsewhere in the state code. Without specific authorizing legislation, charter schools are incapable of taking out any form of debt. This means that charter schools cannot even access the revolving loan program established by the Legislature. This problem must be resolved before charter schools can effectively finance their own facilities.

In addition to the legal obstacles, charter schools also face economic hurdles to borrowing from private sources. First, charter schools pose too high of a risk to secure reasonable rates from lenders. Unlike traditional school districts, which must exist by law in order to educate the state's students, charter schools face a very real possibility of failure and closure. Furthermore, charter schools often rely heavily on individuals or small groups of individuals. Lenders wonder what may happen if these small "founder" groups or individuals lose interest because their children finish school, they lose enthusiasm or somehow become incapable of continuing work. Charter schools also have no credit history, either individually or as a class of organizations. No charter school in Utah has ever borrowed money from a recognized private lender, so there is no precedent for lenders. Charter schools are also risky because their political fortunes have changed so frequently.

A second economic obstacle is equity. Charter schools receive their funding on a yearly and monthly basis and cannot set aside large pools of money to build up equity. This poses a major problem since lenders are rarely willing to finance 100 percent of a project.

A third obstacle is cash flow. Although the 2003 changes to the local levy calculation will increase charters' funding, charter schools do not receive the full amount of debt service funding ordinary schools receive. Additionally, as mentioned above, problems in estimating and funding charter school enrollment have already caused cash flow disruptions for charter schools and may do so in the future. It is difficult for them to enter into long-term contracts with such unsteady revenue streams.

District Status

A small number of state funding programs grant money to all districts on an equal basis. Under these programs, small districts such as North Sanpete receive the same or nearly the same amount of money as large districts, such as Jordan. The two main programs that involve district-equalized funding are the Local Discretionary Block Grant and Interventions for Student Success Block Grant programs. Eight percent of the Local Discretionary Block Grant is divided up equally among all 40 districts in the state and 77 percent of the ISS block grant is made according to the same formula as the Local Discretionary grant. Some other more narrowly

focused grant programs, for which no charter schools qualified in 2002, grant base level amounts to each qualifying district.

For the purposes of the Local Discretionary and ISS block grants, the State Office of Education treats charter schools as a single district. The State Office then divides the "district" money among charter schools based on their enrollments. Charter operators worry that this system might leave them underfunded as the number of charter students increases and the absolute value of each charter school's per-pupil share of district-wide funding declines.

Figure 11 helps to illustrate charters are impacted by district equalized funding formulas compared to all other districts. The table ranks all of the state's districts, including the "charter district," according to population. The table shows that the charter district is quite small in comparison to other districts. It ranks 23rd out of 41 districts, with 71,000 fewer students than Jordan, the most populous district. This means that charter schools fare relatively well in district-equalized appropriations.

Figure 12

Administrative Funding Comparison

School	Funding @ 53 WPUs	Funding @ 48 WPUs	Difference
American Preparatory	14,197	12,858	-1,339
AMES	8,491	7,690	-801
CBA Center	1,359	1,230	-128
Center City	6,793	6,152	-641
Discovery	2,038	1,846	-192
Dream School	1,019	923	-96
Fast Forward	1,698	1,538	-160
Freedom Academy	11,887	10,766	-1,121
Jean Massieu	1,359	1,230	-128
John Hancock	6,453	5,844	-609
Ogden Preparatory Acad.	6,793	6,152	-641
Park City Lrnng Cntr	1,189	1,077	-112
Pinnacle Canyon	11,548	10,458	-1,089
S.L. Arts	3,804	3,445	-359
Soldier Hollow	2,242	2,030	-211
Success School	3,498	3,168	-330
Thomas Edison	9,510	8,613	-897
Timpanogos Academy	12,737	11,535	-1,202
Tuacahn	5,434	4,922	-513
Uintah River	1,902	1,723	-179
Total	113,950	103,200	-10,750

Source: Ibid.

Charter schools' status as a district raises slightly more complex issues with regard to the Administrative Costs appropriation. This appropriation is intended to offset districts with central administrative expenses. Districts are given a certain number of weighted pupil units according to their enrollments. A weighted pupil unit is an amount of money, set each year by the Legislature, that the State Office of Education uses to determine how much funding districts qualify for under various programs. All students in grades 1-12 generate at least one weighted pupil unit per year, and may generate more depending on their individual characteristics. Kindergartners generate at least .55 WPUs per year. The formula for the Administrative Costs program assumes large districts have a better economy of scale for performing administrative tasks than small districts and can more easily transfer general operating funds to cover administrative costs. It therefore grants large districts less money than small districts. Districts with less than 2,001 students receive 53 weighted pupil units per year. Districts with 2,001-10,000 students receive 48 WPUs, districts between 10,001 and 20,000 students get 25 WPUs and districts over 20,000 get 16 WPUs.

The State Office of Education began making grants to charter schools as a single district under this program beginning in fiscal year 2003. At the time, the charter district had less than 2000 students, so charter schools together received 53 WPUs to be divided among them based on enrollment. Since then, total charter enrollment has grown, making the charter district eligible to receive only 48 WPUs.

Figure 12 compares the impact on each school of granting the charter district 53 versus 48 WPUs in financial year 2004. The impact of the drop in funding is not large. However, charter school operators argue that the logic behind the funding formula is flawed. Each charter school must fill out its own reports and take care of its own administrative requirements and it must fill out all the same reports as an entire traditional district. Charter school advocates therefore argue that they enjoy no economy of scale as a result of the addition of new charter schools. Additionally, charter operators argue that administrative costs are much higher as a percentage of total costs for charter schools than for ordinary school districts, because charter schools are generally small and cannot centralize administrative tasks, but have very high reporting burdens.

This issue is further complicated by the fact that not all charter schools are completely administratively independent of districts. Some district-chartered schools, such CBA Center, receive almost the same level of administrative support from their districts as ordinary district schools and even file annual financial reports as part of their districts' reports. This raises the possibility that some charter schools may be getting administrative funding to cover costs they do not experience.

Differentiated WPU

The 2003 Legislature established a system of grade-based weighting that grants more money to high school charter students than to elementary charter students in state funding formulas.[13] This contrasts with the funding formulas for ordinary public schools, which treat students in all grades equally, except for Kindergartners, who receive a weight of .55 because they only attend class for half a day The "differentiated WPU" system rests on the notion that high school students cost more to educate than elementary or middle school students, because of expensive high school-specific programs such as science labs and the different demands of the varied high school curriculum. Advocates of this system argue that traditional districts can shift money away from elementary students to high school students to cover extra high school costs. Charter high schools do not have this luxury, since they do not have elementary grades. The 2003 statute weights charter school students according to the following schedule: Kindergarten: .55 WPUs; Grades 1-6: .9 WPUs; Grades 7-8: .99 WPUs; Grades 9-12: 1.2 WPUs.

The largest impact of the new formula comes from the kindergarten and the 1-12 items in the regular basic school program. Under these appropriations, every charter school student in the state receives the amount of a WPU specified in the 2003 formula. The K-12 appropriation is the largest single funding program in the state. The new weighting system also affects other formulas that rely on the number of WPUs generated under the K-12 allocation. Social Security and retirement funding, for example, is allocated proportionally to the WPUs each charter school and school district generates in the regular basic school program.

Utah Foundation could not generate its own analysis on this topic, because of a lack of school-level finance data in the state. A literature review, however, concluded that there is a general consensus among researchers that high school students cost more than elementary students. A groundbreaking analysis of school-level expenditures by the National Center for Education Statistics found that "total school-level expenditures per student were highest in high schools, lowest in elementary schools, and in between in middle schools."[14] The National Charter School Finance Study, a report commissioned by the U.S. Department of Education, treats this debate as a settled issue. According to the report, "Most experts agree that elementary school students are less expensive to educate than high school students." (p. 86)[15] The report even uses the existence of grade-based weighting as a criterion for determining the comparability of charter school funding and ordinary district funding. Levin, a Stanford University education researcher, assumes in his studies of vouchers and tuition tax credits that high school students cost more than elementary and middle students.[16]

Policymakers must be careful, however, about drawing conclusions about the way these national-level studies apply to Utah. There are two complications that make direct comparisons between Utah and other states difficult.

First, Utah high school students' heavy participation in the released time program substantially reduces the cost of educating them. Because a large chunk of students leave school for one class period per day, districts do not have to hire teachers or build classrooms for them.

Second, Utah's funding system already accounts for the high cost of educating high school students, at least in part. Utah's funding system allocates money directly to many of the high-cost programs associated with high school students. For example, many districts have expensive Applied Technology Education programs aimed only at high school students. A grade-based expenditure analysis, such as the NCES study, may find that high school students cost more than elementary students because of these ATE programs. It would be wrong, however, to conclude from such an analysis that high school students' base per-pupil funding (as determined by the state's K-12 program) should be raised. This is because Applied Technology Education generates its own funding independent of the base per-pupil funding. Other high school-specific educational programs, such as concurrent enrollment and AP courses, also receive extra funding from the state. In other words, the Utah system has built-in mechanisms to account for at least some of the higher costs of high school students. It is therefore necessary to determine how much of the additional costs of educating high school students are offset by specific grant programs and how much must be made up by differentiating the WPU. It must be determined, for instance, whether the costs of applied technology education are really covered by the state's categorical grant money or whether districts ordinarily reallocate money from general operating funds to cover all the costs of ATE. Additionally, the Utah system's emphasis on specific grants may make it difficult to compare Utah's funding system with other states. This is significant since the charter school differentiated WPU scheme was modeled after similar systems in other states.

The Impact on School Districts: A Parallel System

Critics argue that charter schools create an inefficient parallel education system that inhibits the construction of economies of scale. According to this argument, charter schools duplicate tasks and facilities that already exist. For example, the state provides 48 WPUs of administrative funding to charter schools. If charter students all returned to the traditional school system, the state would not have to spend this money. Additionally, charter schools must find their own facilities. In districts with declining enrollment, where facilities are more than adequate for all students, building or leasing new buildings for charter schools is a significant extra expense. Charter schools facilities may also be inefficient in districts with expanding enrollment. Even if it is assumed that charter schools remove some of the pressure from expanding districts and allow those districts to build smaller facilities, building small facilities in many locations is generally less efficient than building large facilities in a few locations.

Charter schools also put extra pressure on the State Office of Education. Like districts, charter schools report directly to the State Office. Although charter schools generally involve much less paperwork than large school districts, the addition of what effectively amounts to 20 new mini-districts significantly impacts the State Office's workload. Furthermore, charter school operators are generally less knowledgeable than district administrators. The State Office thus spends a large amount of time training charter school operators and dealing with problems raised by charter schools. The State Office even employs a full-time staff member to serve as a liaison to charter schools.

Figure 13

2003 District Revenue Loss per Student Transferring to a Charter School

	Enrollment-Based Programs:	Kindergarten Student	1-8 Student	9-12 Student
1	Kindergarten, 1-12	$1,173	$2,132	$2,132
2	Professional Staff	106	192	192
3	Class Size Reduction (K-8 Only)	196	196	0
4	Social Security and Retirement	190	346	346
5	Professional Staff Portion	17	31	31
6	Class Size Reduction Portion	32	32	0
7	Subtotal	239	409	377
8	Quality Teaching (Student Portion)	39	72	72
9	Professional Staff Portion	4	6	6
10	Class Size Reduction Portion	7	7	0
11	Subtotal	49	85	78
12	Local Discretionary (Student Portion)	24	44	44
13	Interventions for Student Success (Student Portion)	13	24	24
14	Gifted and Talented	2	4	4
15	At-Risk Regular	4	8	8
16	School Land Trust (actual fall enrollment)	15	15	15
17	**Total**	$1,822	$3,109	$2,874
18				
19	**Student Characteristic-Based Programs For All Grade Levels**			
20	Special Ed Add-On	$2,285		
21	Special Ed Self-Contained	2,169		
22	English Language Learners (LEP)	83		
23	Homeless Portion of Homeless & Minority	43		
24	Disadvantaged Minority Portion of Homeless & Minority	22		
25	Advanced Placement	104		
26	Concurrent Enrollment	706		

Source: State Office of Education. Calculations by Utah Foundation.

Charter schools are also inefficient because of their small size and independence from central district administrative offices. Although there are arguably many educational benefits to small schools, the state and districts have long since recognized that there are few financial benefits. That is why districts persistently build large schools. The state even has a funding program—Necessarily Existent Small Schools—that grants extra money to small schools that cannot be consolidated for geographical reasons. The program assumes that small schools are expensive to operate. This may be part of why charter operators persistently complain about the difficulty of making ends meet. Figure 3 showed that revenues between district and charter schools are not very far apart, but charters may have a harder time financially than traditional schools because the state's funding system is not designed to support the additional costs associated with running small schools.

Charter school proponents counter these arguments by saying that the benefits of charter schools are worth the extra expenditures. Although it may cost the state more to run charter schools, they serve purposes (many of which are described above) for which policymakers may be willing to spend extra money and experience a reduction in efficiency.

District Revenue Loss

Much of the debate about charter school funding has focused on the amount of money charter students take from traditional public schools. This issue consists of two problems: district revenue loss and district cost savings. The two issues are distinct and must not be confused. Revenue loss refers to the amount of money for which districts fail to qualify under state and federal enrollment-based funding formulas as a result of charter students leaving. District cost savings refers to the amount of money districts save by cutting expenditures that would have occurred if charter students had not left the public system.

It is clear that districts lose substantial amounts of state revenue when students leave for charter schools. Figure 13 estimates the amount of money districts lose in state funding when a typical charter school student leaves. The complexity and variety of state funding formulas makes an analysis such as this extremely complicated. Figure 13 is therefore best taken as an estimate, rather than an exact determination. This analysis does not simply divide the total appropriations by total 2002 average daily membership. Many of the formulas affect other formulas. The Social Security formula, for instance, is based on total WPUs generated, so an estimate of the

amount of money students take with them must include the way that Class Size Reduction and Professional Staff-generated WPUs affect Social Security grants. Comprehensive notes on methodology are included in the appendix.

The estimate is divided into two portions: enrollment-based programs, for which all students automatically qualify, and student characteristic-based programs, for which some students qualify, depending on their particular educational needs and racial and economic classifications. The total amount of money individual students take with them when they leave may be found by adding the total from the enrollment-based programs to the sum of the various characteristic-based programs for which those particular students qualify. Figure 13 shows that district losses of state funding can be significant—at least $2,874 for high school students and $3,109 for students in grades 1-8. These estimates do not account for all of the total per-pupil funding shown in the charter-district revenue comparison chart, however, because they do not include local tax revenue, which does not follow charter students, or federal revenue, some of which may follow charter students. Because it does not include federal revenue, this analysis underestimates the amount of money districts lose when students leave. Figure 13 may further underestimate revenue losses, because in addition to the money individual charter students take from districts when they leave, charter schools force a general reduction in state revenue for all districts by taking money from the Uniform School Fund for property tax replacement. As described above, the state allocates money away from other uses in order to fund charter school local levy replacement. This affects all districts, including those without charter schools. This must be considered a revenue loss for districts.

The impact of the reduction in state funding is slightly mitigated by the fact that the 2003 Legislature's local levy replacement system eliminated school districts' 50 percent local levy contributions to charter schools. School districts now retain all of their local property tax revenue beyond the minimum basic rate regardless of how many students leave for charter schools. This means that school districts do not "lose" the entire per-pupil average funding for their districts when charter students leave.

District Cost Savings

Districts clearly experience significant revenue loss when students leave for charter schools. It is much more difficult, however, to determine whether districts experience an offsetting reduction in costs. The cost issue raises two questions: First, which costs are variable? Second, what is the unit of marginal analysis? In other words, how many students have to leave before the variable costs vary?

The answer to the first question really

Figure 14

Elementary Students Leaving Alpine District Schools for Charter Schools by Grade: 2002-03 School Year

	Grade							
School	Kindergarten	First	Second	Third	Fourth	Fifth	Sixth	Total Students Leaving for Charters
Alpine		1	2	2	2	1	1	9
Aspen	1		2			1	1	5
Barratt		1		1		1	1	4
Bonneville		1	2		1	2	1	7
Cascade						1		1
Cedar Ridge	1	6	9	5	9	5	8	43
Central		2	1		3	1		7
Eaglecrest			2			1		3
Forbes		2	3	3		1		9
Greenwood	1							1
Grovecrest	3	6	11	10	9	9	7	55
Highland	1	2	4	5	3	5	1	21
Hillcrest		1	1				1	3
Legacy	1	1	2	2	2	3	1	12
Lehi	1	3	1	1	2	2		10
Lindon		1	2					3
Manila	2	2	2	3	2	3	2	16
Meadow		2	1	3	1	2	2	11
Mt. Mahogany	4		1	3	2	2	1	13
Northridge		1		3			1	5
Orchard		1						1
Orem				1	1			2
Rocky Mtn		5	3	10	13	10	9	50
Scera Park			1					1
Shelley		3	6	2	3	4	1	19
Suncrest		2			2			4
Valley View		2	4	2	3	2	1	14
Vineyard		3			1	1		5
Westfield			1	1	1	3	1	7
Total by Grade	15	48	61	57	60	60	40	341

Source: Alpine School District.

Figure 15

Highland Elementary Revenue Loss for Five 3rd Grade Charter School Transfers

Enrollment-Based Programs:	Per Student	For Five Students
Kindergarten, 1-12	$2,132	$10,660
Professional Staff	192	960
Class Size Reduction (K-8 Only)	196	982
Social Security and Retirement	346	1,729
Professional Staff Portion	31	156
Class Size Reduction Portion	32	159
Subtotal	409	2,044
Quality Teaching (Student Portion)	72	358
Professional Staff Portion	6	32
Class Size Reduction Portion	7	33
Subtotal	85	423
Local Discretionary (Student Portion)	44	220
Interventions for Student Success (Student Portion)	24	121
Gifted and Talented	4	20
At-Risk Regular	8	40
School Land Trust (actual fall enrollment)	15	75
Total	$3,109	$15,545

Source: Ibid.

depends on the answer to the second, because except for facilities acquisition and construction, other property-related expenditures and some centralized administrative expenditures, most school costs are variable if enough students leave. The real question, therefore, is how many students have to leave before particular costs decline.

Unfortunately, there is no satisfying universal answer to this question. Different costs have different units of marginal analysis. For example, it takes an entire school worth of enrollment loss in order to eliminate a principal position, but it only takes one classroom of enrollment loss to eliminate a teacher. Some instructional supply costs may even vary with the addition and subtraction of individual students.

The only reasonably accurate way to estimate school cost reduction is to examine data on enrollment loss by school. It is not sufficient to examine data on enrollment loss by district, since most costs are determined at the school level. Figure 14 presents enrollment loss data by school for Alpine School District. Alpine District is not necessarily representative of all districts, but it was not possible to get similar data from other districts. Alpine District has two charter schools—Timpanogos Academy and John Hancock Charter School.

These data are an enrollment snapshot for school year 2002-03. They show that students leave schools in very small numbers by grade. In most cases, the number of students who have left a single school do not exceed five in a grade, with a few exceptions reaching to 13 students in one grade at one school. This means that if the unit of marginal analysis is a classroom—and in the case of teacher salaries, it is—districts have experienced very little reduction in costs as a result of charter schools. Small reductions in enrollment in individual schools probably save those schools very little money. Highland Elementary, for example, lost five third-graders. The school's costs for computer labs, janitorial staff, teachers, school administrators, district administrators and utilities were all likely unaffected by these students leaving. Expenditures for classroom supplies may have been slightly reduced.

Figure 15 shows that it is not realistic to say that schools' costs are reduced in proportion to their revenue losses. Despite experiencing only minimal cost reductions, Highland Elementary lost approximately $15,545[17] in state funding when its five third graders left for charter schools.

Some charter advocates argue that charter schools can help take pressure off of high-growth districts by providing outlets for growth. They argue that charter schools can take students from overcrowded classrooms and thus eliminate or reduce the need to build new schools. Alpine District is a good test case because it is relatively well urbanized and it is one of the state's fastest growing districts. A truly thorough evaluation of this argument requires an analysis of the size of every classroom from which charter students left. Such an analysis's not possible here. However, it appears unlikely that charter schools significantly affect districts' building costs for two reasons: First, charter schools rarely take students from high-growth areas. In Alpine District both charter schools are located in areas of the district where there is no school construction planned, and the charters draw heavily from areas close to them geographically. Second, charter school growth is unpredictable. Alpine School District has not factored

charter schools into its long-term growth plans, because it does not know where and when charter schools will be built.

Options for Policy Change

Altering the Local Levy Calculation

Sen. Howard Stephenson has proposed altering the local levy calculation formula to include revenue from the debt service property tax instead of expenditures for interest. Figure 7 showed how this would affect the calculation of the local levy—it would take average property tax revenue from $965 per pupil to $1,189. If each charter student were funded at the full state average, including debt service tax revenue, it would cost the state an additional $739,810.

Policymakers may also consider including the state guarantees on the board and voted leeway taxes and the special transportation tax. Figure 7, Column C, showed this would add another $95 dollars to the statewide per pupil average. There are good arguments in favor of including this. Qualifying districts levy their board and voted leeway taxes with the expectation of receiving a subsidy from the state. From these districts' perspectives, the state match is simply another portion of their property taxes. These funds come without restrictions and may be used for any purpose, in the same way as board and voted leeway tax revenue. In many cases they form a significant portion of district local property tax revenue. On the other hand, including the state match on these taxes would increase the state's costs. Additionally, there are only six charter schools in districts receiving state board and voted leeway funds, so it may not make sense to give the statewide average board and voted leeway funds to all charter schools.

Figure 16

Estimated Change in Funding if 50-50 Local Levy Split Were Reinstated

District	Estimated FY04 Charter Enrollment	2003 System 50% Local Levy	District Cost	State Match**
Alpine*	565	$310	$175,142	$175,142
Beaver		660	0	0
Box Elder		264	0	0
Cache*	280	267	74,886	74,886
Carbon	340	603	204,886	188,700
Daggett		1,238	0	0
Davis		333	0	0
Duchesne		454	0	0
Emery		1,049	0	0
Garfield		725	0	0
Grand		797	0	0
Granite*	383	541	207,093	207,093
Iron		526	0	0
Jordan*	458	595	272,466	254,190
Juab		409	0	0
Kane		476	0	0
Millard*	40	1,001	40,038	22,200
Morgan		378	0	0
Nebo		339	0	0
No. Sanpete		277	0	0
No. Summit		525	0	0
Park City*	35	2,024	70,853	19,425
Piute		287	0	0
Rich		661	0	0
San Juan		478	0	0
Sevier		319	0	0
So. Sanpete		340	0	0
So. Summit		726	0	0
Tintic		202	0	0
Tooele		413	0	0
Uintah*	56	499	27,929	27,929
Wasatch*	66	269	17,723	17,723
Washington*	160	408	65,263	65,263
Wayne		508	0	0
Weber		315	0	0
Salt Lake*	312	926	289,041	173,160
Ogden*	200	514	102,748	102,748
Provo*	350	422	147,625	147,625
Logan*	50	507	25,341	25,341
Murray		624	0	0
Total Or Average	3,295	$555	$1,721,034	$1,501,425

Source: Ibid.

Policymakers may also want to reconsider how they divide up responsibility for replacing local levy revenue for charter schools. One option for changing the formula is to bring back the 50-50 split system in which districts contribute half of their calculated local levy revenue and the state matches that funding up to the unweighted average of district contributions (similar to the 2001 formula but including the items for capital needs added to the 2003 formula). Figure 16 shows how this would affect both districts and the state. This system would address some of the limitations of the statewide average system. It would reduce funding disparities between charter schools and surrounding schools and would reduce the extent to which districts without charter schools lose funding as a result of the state's contribution to charter local levy replacement. On the other hand, this system would heavily impact the funding of districts with charter schools and would create inequity between charter schools around the state.

The data source issue may also deserve consideration. Figure 9 showed

that switching data sources would not have a large impact on the state's or charter schools' finances. However, for the sake of consistency and clarity, it may be wise to switch. Every property tax revenue calculation that is important for determining state guarantees or other state funding to districts—basic levy revenue, board and voted leeway revenue and special transportation levy revenue—are calculated using the state's data, rather than the districts' AFRs.

Charter School Alliance

Other researchers have suggested the creation of a "Charter Schools Alliance"—a charter school organization that reduces costs by centralizing administrative resources and buying power. Such an organization could take many forms, depending on how it was funded, whether membership was voluntary or involuntary and what purposes it served. The organization may serve several functions:

Centralization of reporting and paperwork: Someone from the alliance could learn the details of state reporting and do much of the work in helping charter schools comply. This would not eliminate all of the workload at each school, since each school would still have to gather its own data and give it to the administrator. However, this would require much less knowledge and work than doing all of the paperwork at the school level. Additionally, there is a high amount of turnover among charter school operators, and having a central charter alliance administrator would eliminate much of the need to train every new charter operator in all of the myriad details of state reporting.

Centralization of buying power: Unlike districts, charter schools do not have an economy of scale that enables them to buy in bulk. Centralizing buying power could allow charter schools to buy classroom materials and supplies and perhaps even buildings at lower rates.

Pooling of knowledge: Charter operators often express bewilderment at the scale of knowledge and expertise required to open a charter school. A charter alliance may enable experienced charter operators to advise prospective and new charter operators.

The charter alliance's major limitation is that each charter school is unique and prizes its independence. Charter schools exist precisely because they fit no standard form. They may truly not be able to accomplish anything by surrendering their independence even if they wanted to. For example, Jean Massieu, a small charter school serving hearing-impaired elementary students in Jordan District has very different needs from the much larger Tuacahn High School for the Performing Arts in St. George. A second limitation is that charter schools are geographically very far apart. This means it may not be feasible to buy supplies for all charter schools in bulk.

Addressing the Facilities Issue

The most pressing obstacle charter schools face in securing facilities is their unclear legal status. If charter schools are to finance facilities acquisition, they must be given borrowing authority. There are several routes to this:

Give charter schools borrowing authority under the Utah Municipal Bond Act: This act empowers cities in Utah to issue revenue bonds. The Act could be amended to include charter schools as potential borrowers.

Treat charter schools as a state entity and issue general obligation

bonds for them in the same way that general obligation bonds are issued for universities: Issuing general obligation bonds for charter schools may raise some revenue problems, because general obligation bonds are traditionally paid back in seven years and charter schools would likely want to finance their facilities over a much longer period. This probably could be solved by simply issuing the bonds over a longer period. Additionally, issuing general obligation bonds may pose some risks to the state's bond rating. This issue must be explored further.

Empower districts to issue bonds on behalf of charter schools in their boundaries: Charter schools could pay back the bonds rather than the taxpayers in the districts. However, this could pose some threat to districts' financial status, since they may be liable if charter schools default on their loans.

Some analysts have cautioned that giving charter schools borrowing authority may harm their independence by making them subject to the Utah Money Management Act. It appears, however, that charter schools are already subject to the act and that they are doing a reasonably good job of complying.

In order to make facilities available to all charter schools, the state will need to involve private lenders. Although it would be most advantageous for charter schools to borrow directly from the state, the state has only allocated $2,000,000 to the charter school revolving loan fund and will likely never come up with enough money to make loans directly to all charter schools. Unfortunately, addressing the legal concerns is only part of the equation. Policymakers must also address the economic obstacles charters face in borrowing from private lenders. The primary obstacles to securing private loans are risk and equity. There are a few options for addressing these obstacles:

Use the revolving loan fund as an equity build-up: Instead of making loans directly to charter schools, the state could use its revolving loan fund simply as a way of guaranteeing private loans. Potentially, this money could be stretched to cover the loans of many charter schools, on the assumption that not all charter schools whose loans are covered will default.

Encourage private donations: Already in Utah and in other states, private donors who believe in the charter concept have made significant contributions to charter school facilities. Donations need not cover the entire cost of building facilities; they may merely serve as a way of building up equity.

Strengthen charter school cash flow: Because of statutory changes and problems in estimating enrollment, charter school finances have fluctuated considerably since 1998. In order to reduce the risk posed by charter schools to lenders, the state must ensure that charter school cash flow is not only adequate, but also consistent.

Provide tax incentives to private lenders to loan to charter schools: The state could give a tax credit to lenders who loan to charter schools, thus enabling charter schools to borrow at lower rates. The federal government established a similar program in 1999 called the Qualified Zone Academy Bond Program. The program gives a tax credit to private institutions that buy bonds from schools in high-poverty areas.

Encourage charter schools and landlords to develop lease-to-own contracts: Timpanogos Academy, John Hancock Charter School and American Preparatory Academy have all entered long-term leases that

will end in charter school ownership of their facilities. Timpanogos Academy and APA were even able to obtain new facilities constructed specifically for their schools this way.

Provide incentives for school districts and other institutions to lease or sell buildings to charter schools: This could come in the form of tax credits or direct financial help. Utah could even follow Washington D.C. in requiring districts to make vacant school building available to charter schools at lower prices than to other tenants.

Conclusion

This report began by asking whether charter and traditional school funding are equal. Clearly, there is no easy answer. Charter schools and traditional schools do not experience equality of outcome, but they may experience equality of opportunity, depending on how those opportunities are defined. Questions about what goes into school funding, how the numbers are crunched and how the money is distributed have no clear answers, but very significant implications.

This casts doubt on attempts to describe the school funding debate in terms of what charter and traditional students "deserve." It is difficult to say what school funding is, and how much students should rightfully get. But more importantly, the fact that school funding comprises such a varied and difficult combination of sources and formulas makes the notion that students could exert a rights-based claim on school funding itself a little suspect. Charter students may "deserve" local property tax revenue because their parents pay property taxes, but do they also deserve sizable start-up grants from the federal government, which are funded by income taxes collected in other states? Do they deserve administrative costs funding that duplicates money already going to districts? Or do they forfeit some of their rights to funding by opting out of a mainstream public education system designed to educate all students?

A more relevant approach to the questions of charter school funding may be to compare the worth of the charter experiment to the costs. Charter schools serve many valuable purposes, and instead of asking what students deserve, policymakers may ask whether those purposes justify the additional funding they require. It may be worth a few million dollars in administrative or facilities funding, for instance, to encourage innovation in curriculum and school governance or to serve the needs of special populations, such as deaf students or Ute Indian students. It may also be worth harming traditional schools to some degree in order to fund what might be a valuable project. These are questions that with which policymakers and advocates must wrestle in order to design policies that accurately reflect the value of charter schools.

Endnotes

[1] Utah Code 53A-1a-506, 53A-1a-507.

[2] Utah Code 53A-1a-506.

[3] Utah Code 53A-1a-503.

[4] Utah Code 53A-17a-101.

[5] Utah Code 53A-17a-135.

[6] *Ibid.*

[7] Includes CBA Center, Jean Massieu, Timpanogos High School, Pinnacle

Canyon Academy, Success School. Data is also included for Center City School, which opened in fiscal year 2001. Surveys were used to supplement data from the Annual Financial Reports because data in the Annual Financial Reports was incomplete or clearly inaccurate for many charter schools. Uintah River High School did not respond to the survey.

[8] Success School was selected as a representative sample charter school, because it is situated in a large, urban district, similar to the ones where a majority of the state's students attend, and because it had the most reliable and clear reporting of any of the six charter schools.

[9] The State Office's data was used primarily because charter schools' Annual Financial Report data were generally poor, especially with regards to revenue received from the state. The State Office's data also more accurately isolated revenue districts qualified for in fiscal year 2002, as opposed to other years. The State Office's data and the Annual Financial Reports occasionally disagreed, probably because of the timing of disbursements and expenditures and inconsistencies across districts in the way revenues were accounted.

[10] Judgment had to be exercised about suspicious figures in charter schools' Annual Financial Reports. In many cases, charter schools had to be consulted directly to clear up apparent inconsistencies.

[11] Utah Code 53A-1a-513.

[12] At the time the Fiscal Analyst's Office calculated the local levy replacement as $1,022 per student. The prior year's enrollment was 1,526 students. The Fiscal Analyst projected growth of 1,400 students.

[13] Utah Code 53A-1a-513.

[14] U.S. Department of Education. National Center for Education Statistics. *Assessment and Analysis of School-Level Expenditures*, Working Paper No. 96-19, by Joel D. Sherman, Clayton Best and Lawrence Luskin. Washington, D.C.: 1996.

[15] U.S. Department of Education. Office of Educational Research and Improvement. *Venturesome Capital: State Charter School Finance Systems*. Nelson, F.; Muir, E.; Drown, R. Washington, D.C: 2000.

[16] Levin, H. 1999. "Education Vouchers: Effectiveness, Choice and Costs." *Journal of Policy Analysis and Management.* Vol. 17, No. 3.

[17] Calculated using Figure 13, grade 1-8 average enrollment-based funding times five.

Appendix: Notes on Methodology on District Revenue Loss Calculation

- K-12 (Line 1): Takes the total appropriation for 1-12 plus the total appropriation for Kindergarten and subtracts FY 03 final basic rate revenue. Then multiplies Kindergarten enrollment by .55 and adds 1-12 enrollment. Then divides the total appropriation after the basic levy by that figure. That was the 1-12 amount. Multiplies the 1-12 amount by .55 to get the Kindergarten amount.
- Professional Staff (Line 2): Divides the total appropriation by total 1-2-3 WPUs. This is the per-student portion. You can't divide this by ADM, or else you would unjustifiably attach the portion of the appropriation tied to NESS-generated WPUs to ADMs.
- Class Size Reduction (Line 3): Divides the total appropriation for class size reduction by total ADM in 2002 for grades K-8 to get the per-pupil amount for both kindergartners and 1-8. Does not differentiate between kindergartners and 1-8 graders.
- Social Security and Retirement (Lines 4,5,6,7): Divides the total appropriation by total MSP WPUs. This is the amount of SSR money for every WPU each student generates. Each student generates at least 1 WPU (or .55 for kindergartners) under the K-12 program. To figure out how many WPUs each K-8 student generated for class size reduction, divides the total number of class size reduction WPUs by K-8 ADM. Multiplies this by the per-WPU SSR dollar amount and adds that to the K-8 SSR amount. Divides total professional staff WPUs by total 1-2-3 WPUs to get the number of WPUs each student generates in professional staff funding. Multiplies that by the per-WPU SSR dollar amount and added that to SSR for all students, except kindergartners. For kindergartners, multiplies it by .55.
- Quality Teaching Block Grant (Lines 8,9,10,11): Multiplies the total appropriation by .7 and divides that number by total basic program WPUs. This was the dollar amount generated under Quality Teaching for every WPU generated in the basic program. Each student was assumed to generate 1 WPU under the K-12 program (except kindergartners, who generate .55). Multiplies the Professional Staff WPUs per 1-2-3 WPU total in step four by the per-WPU Quality Teaching Dollar Amount and added this to the amount for 1-12 graders. Multiplies it by .55 for kindergartners. Multiplies the per-K-8 ADM WPUs generated in the class size reduction program by the per-WPU dollar amount generated under the quality teaching block grant. Does not differentiate between kindergartners and 1-8 graders.
- Local Discretionary (Line 12): Multiplies the appropriation by .92 and divides that number by total 1-2-3 WPUs. Kindergartners are weighted at .55.
- ISS (Line 13): Multiplies the appropriation by (0.773 X 0.92) to get the per-student portion. Divides that calculation by 1-2-3 WPUs. Kindergartners were weighted at .55.
- Gifted and Talented (Line 14): Divides total appropriation by 1-12 ADM plus .55 times kindergarten ADM. Kindergartners weighted at .55.
- At-Risk Regular (Line 15): Divides the total appropriation by (0.55 X Kinder ADM + 1-12 ADM). This unfortunately overestimates the appropriation for non-free and reduced price lunch students and underestimates it for FRL students.
- School Land Trust (Line 16): Multiplies the appropriation by .9 and divided by K-12 Oct. 1, 2001 enrollment.
- Special Ed (Lines 20 & 21): Both special education calculations divide the total appropriation by the number of students served.
- ELP (Line 22): Divides the appropriation by the number of students served in the program.
- Homeless & Minority (Lines 23 & 24): Multiplies the total appropriation by the ratio: (Homeless Students/ (Homeless+1/2 X Minority). This gives the portion of the appropriation tied to homeless students. Divides this by the number of homeless students to get the per-homeless student dollar amount. Divides the minority portion by the TOTAL (NOT half of the total) disadvantaged minority students to get the per-minority student dollar amount.
- Advanced Placement (Line 25): Divides the appropriation by the number of AP courses taken.
- Concurrent Enrollment (Line 26): Divides the appropriation by the number of concurrent enrollment hours taken.

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Questions? Please contact Steve Kroes, Utah Foundation's Executive Director, by phone (801-272-8824) or email (steve@utahfoundation.org).

Lesson plans are reviewed and edited by Christopher Black, who has been an Economics and Marketing teacher for over 30 years. Chris is a lesson plan writer for the Wall Street Journal's Classroom Edition. He has been recognized for his creative teaching by the Utah State Office of Education in both Marketing and Economics, won the Leavey Award from the Freedom Foundation at Valley Forge and was Junior Achievement's National Economics Teacher of the Year.

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