

# CHALLENGES FACING UTAH CHARTER SCHOOLS

Charter schools have faced many challenges in Utah since their inception. This report provides an analysis of charter school funding levels compared to traditional public schools, the ability of charter schools to secure appropriate, affordable and reliable facilities for their students, administrative costs and funding, and teacher retention and compensation.

This report includes a survey of charter school administrators to ensure that all major concerns are addressed. Survey results are available with the full report online at [www.utahfoundation.org](http://www.utahfoundation.org).

Utah passed its first charter school law in 1998. Since then, the number of charter schools has increased from eight in the fall of 1999 to 36 by fall 2005. This growth is an indication of acceptance by parents and enthusiasm for the kinds of choices offered by charter schools. This enthusiasm, however, also brings growing pains.

Monitored by the State Charter School Director and the State Charter School Board, charter schools are state funded, independent public schools subject to nearly all of the requirements that apply to regular public schools. Both charter schools and traditional public schools in Utah receive revenue from three main sources: the federal government, the state government, and local revenues generated by their own property tax levies.<sup>1</sup> However, there are considerable funding differences between charter schools and traditional public schools.

## UTAH'S SCHOOL FUNDING SYSTEM

More than one-third of district funding is comprised of local revenues—namely property tax. Charter schools are unable to levy property taxes and therefore cannot capture local revenues in the same manner. In 2003, the Legislature enacted changes and created “local replacement funding” for charter schools to compensate for their inability to collect local revenues.

State funding is the largest revenue source for both traditional public schools and charter schools. Roughly 73% of charter school revenue

is from state sources, as compared to 58% for districts. Through the Minimum School Program Act (MSP), the state distributes funds to districts and charter schools using a myriad of formulas based on enrollment, student characteristics and school location. Every district in the state must levy the basic minimum property tax rate in order to qualify for funding from the state’s Uniform School Fund. State revenues are generated based on the amount of local revenues a district receives. The basis for distribution of the Basic Program for students in grades K-12 is the Weighted Pupil Unit, or WPU.

WPU is a measurement unit calculated according to program-specific formulas usually involving prior year average daily membership (ADM) plus growth. The Legislature determines the dollar value of the WPU annually during the General Session. How many WPUs a district or charter school generates is contingent upon various student characteristics. For charter schools, Kindergarten students generate 0.55 WPUs, students in grades 1-6 generate 0.9 WPUs, grades 7-8 generate 0.99 WPUs, and grades 9-12 generate 1.2 WPUs. One WPU for FY 2003-2004 was \$2,150; for FY 2006 it is valued at \$2,280.

As mentioned above, charter schools receive local replacement funding<sup>2</sup> in lieu of collecting property taxes or receiving funding from individual school districts.<sup>3</sup> At the time of this report, the FY 2006 local replacement funding rate for charter schools is \$1,051 per student, an increase of \$45 per student from FY 2005.

For the complete report on this topic and other reports, please visit our website at [www.utahfoundation.org](http://www.utahfoundation.org)

Federal funding is considerably more important for charter schools than for districts. Federal revenues for charter schools approach 17%, but are only 7% for districts.<sup>4</sup> By relying heavily on federal grants, a great deal of risk exists for charter schools' financial future. Utah currently receives funding from two federal programs: the Public Charter Schools Program (PCSP) and the State Charter School Facilities Incentive Grants Program.

Charter schools are eligible to receive PCSP grant monies for three years in order to offset start-up costs incurred during their first years of operations. While valuable, these funds are limited, and the amount provided to schools diminishes as the number of charter schools has grown. As a competitive grant program, there is no guarantee that Utah will be the recipient of continued future funding.

Beginning in FY 2004-2005, Utah was one of only four states to receive a federal grant under the State Charter School Facilities Incentive Grants Program. These funds will be distributed over a five year period, diminishing each year until they are entirely phased out.<sup>5</sup>

The new federal Facilities Incentive Grant has helped Utah provide funding for charter school facilities, but it was designed to be a temporary boost to the state, providing leverage for the creation of a new facilities funding system at the state level. However, Utah has not created a new facilities funding system to "take up the slack" as the federal money phases out. Therefore, this grant is only providing a temporary boost to charter school funding.

## FUNDING PARITY

Ensuring funding parity between charter schools and districts has been a concern for many legislators, educational professionals, and the charter school community since the inception of charter schools in Utah. Figure 1 provides a comparison of charter school and district funding levels.

Although charter schools appear to have no capital projects or debt service funds, they do spend revenues from their general funds on capital facilities (usually lease payments). Their general funds include the state-provided local revenue replacement funding described above. The local revenue replacement funding is specifically crafted to replace what a charter school would have received in property taxes if it were part of a district, including funds the districts collect for capital facilities financing. Therefore, this comparison of funding parity includes the debt service and capital projects funds for the districts, even though the charter schools have no revenue in those funds. To accurately gauge ongoing fiscal capacity for the typical charter school, this analysis emphasizes totals that exclude the three year federal start-up grants received by new charter schools, because these funds are to be spent on initial one-time costs only and not for ongoing operations.

Charter schools received \$4,955 per pupil in ongoing funds in FY 2004, while districts received \$5,756 per pupil. This places charter

Figure 1: FY 2004 Funding Comparison by Revenue Source

Funding Source	Total Dollars		Per Pupil		Difference Charters - Districts
	All Charters	All Districts	Charters	Districts	
<b>MAINTENANCE &amp; OPERATION</b>					
<b>Local Sources</b>	<b>\$1,948,151</b>	<b>\$496,698,958</b>	<b>\$598</b>	<b>\$1,038</b>	<b>-\$440</b>
Property Taxes <sup>1</sup>	0	433,750,489	0	906	-906
Earnings on Investments	5,731	10,472,581	2	22	-20
Contributions & Donations	1,123,932	160,405	345	0	344
Other <sup>2</sup>	818,488	52,315,483	251	109	142
<b>State Sources</b>	<b>\$13,599,402</b>	<b>\$1,580,671,822</b>	<b>\$4,172</b>	<b>\$3,302</b>	<b>\$869</b>
Regular Basic Program <sup>3</sup>	7,091,759	762,281,414	2,175	1,592	583
<i>Restricted Basic Program</i>					
Special Education <sup>4</sup>	864,215	143,927,080	265	301	-36
Class Size Reduction	417,731	64,276,812	128	134	-6
Applied Technology	8,324	48,888,192	3	102	-100
Social Security & Retirement	1,359,841	230,629,256	417	482	-65
State Block Grants <sup>5</sup>	592,091	93,706,298	182	196	-14
<i>Special Populations</i>					
At-Risk Regular	16,451	5,220,143	5	11	-6
Other At-Risk	41,082	19,138,593	13	40	-27
Accelerated Learning Gifted & Talented	12,853	1,859,857	4	4	0
Other Accelerated Learning	4,840	7,346,297	1	15	-14
Transportation <sup>6</sup>	0	54,948,160	0	115	-115
School Land Trust	31,350	8,048,918	10	17	-7
Board and Voted Leeway Guarantees	0	109,586,346	0	229	-229
Charter School Local Replacement	2,593,920	0	796	0	796
Miscellaneous <sup>7</sup>	46,901	22,722,027	14	47	-33
Other <sup>8</sup>	518,044	8,092,429	159	17	142
<b>Federal Sources</b>	<b>\$3,103,323</b>	<b>\$197,441,993</b>	<b>\$952</b>	<b>\$412</b>	<b>\$539</b>
Charter School Start-Up Grants (PCSP)	2,497,021	0	766	0	766
Other Federal	606,302	197,441,993	186	412	-226
<b>Total M&amp;O Funding</b>	<b>\$18,650,876</b>	<b>\$2,274,812,773</b>	<b>\$5,721</b>	<b>\$4,752</b>	<b>\$969</b>
<b>TOTAL M&amp;O LESS CHARTER START-UP GRANTS</b>	<b>\$16,153,855</b>	<b>\$2,274,812,773</b>	<b>\$4,955</b>	<b>\$4,752</b>	<b>\$203</b>
<b>DEBT SERVICE FUND</b>					
Property Taxes	0	195,011,016	0	407	-407
Other Local, State Sources	0	2,106,409	0	4	-4
<b>TOTAL DEBT SERVICE FUND</b>	<b>\$0</b>	<b>\$197,117,425</b>	<b>\$0</b>	<b>\$412</b>	<b>-\$412</b>
<b>CAPITAL PROJECTS FUND<sup>9</sup></b>					
Property Taxes	0	228,410,212	0	477	-477
Other Local	0	23,627,354	0	49	-49
Capital Outlay Foundation (State)	0	26,948,900	0	56	-56
Other Sources	0	4,541,000	0	9	-9
<b>TOTAL CAPITAL PROJECTS FUND</b>	<b>\$0</b>	<b>\$283,527,466</b>	<b>\$0</b>	<b>\$592</b>	<b>-\$592</b>
<b>Grand Total<sup>10</sup></b>	<b>\$18,650,876</b>	<b>\$2,755,457,664</b>	<b>\$5,721</b>	<b>\$5,756</b>	<b>-\$35</b>
<b>GRAND TOTAL LESS CHARTER START-UP GRANTS</b>	<b>\$16,153,855</b>	<b>\$2,755,457,664</b>	<b>\$4,955</b>	<b>\$5,756</b>	<b>-\$801</b>
Pupil Count (Average Daily Membership)	3,260	478,675			

### Notes on Line Items:

- Includes basic levy, board and voted leeways, special transportation, Utah government immunity (tort liability) and judgment recovery. Fees in lieu of taxes are included in each tax, not as a separate line item.
- Tuition, transportation fees, local governmental units other than LEAs, student activities, other revenues from local sources, rentals, textbooks, and miscellaneous.
- Kindergarten, 1-12, Necessarily Existent Small Schools, Professional Staff and Administrative Costs. Basic levy revenue subtracted for traditional schools.
- Special Ed Preschool not included because it is accounted for in the non-K-12 programs fund.
- Quality Teaching (Professional Development and Professional Development Days) and Local Discretionary block grants.
- Pupil Transportation and Transportation Levy Guarantee.
- Includes Out-of-State Tuition, Highly Impacted Schools, Driver Education Behind the Wheel, Supplementals / Other Bills and revenues from other state agencies.
- Other Revenues from State Sources (Non-MSP).
- Capital Outlay, Voted Capital and all Ten Percent Additional Basic Taxes.
- Does not include Non K-12 Programs Fund, Building Reserve Fund, Food Service Fund, and Other Governmental and Enterprise Funds.

Source: All tax revenue data taken from Fiscal Year 2004 Annual Financial Report. Federal Charter School Start-Up Grants provided by the Utah State Office of Education. Enrollment figures from the 2003-2004 Annual Report of the State Superintendent of Public Instruction

school funding at about 86% of traditional public schools' funding. The gap between charter schools and districts in ongoing per-pupil funding is about the same as it was two years ago: about \$801 per pupil. Figure 2 details the funding differences. A portion of this difference is legitimate – some funds are not provided to charter schools because they simply do not have the student characteristics that would call upon those funds.

**Figure 2: Major Components of Per-Pupil Funding Differences Between Charter Schools and Districts**

	Per Pupil Funds
<b>Student population differences:</b>	
Federal funds (largely for disadvantaged populations)	\$226
Applied technology funding	100
<b>Subtotal</b>	<b>\$326</b>
<b>Funding eligibility issue:</b>	
Ineligibility for transportation funds	\$115
<b>Local revenue replacement formula issues:</b>	
Exclusion of principal amounts from debt service taxes	267
Exclusion of state guarantees for leeway taxes	229
Exclusion of state Capital Outlay Foundation revenues	56
<b>Subtotal</b>	<b>\$552</b>
<b>Total</b>	<b>\$993</b>

Source: Utah State Office of Education (USOE)

However, much of the funding gap is due to charter schools ineligibility for certain funds and to shortfalls in the local revenue replacement formula, which was designed to provide per-pupil funds to charter schools equivalent to districts' local property tax revenues. Another significant shortcoming in the formula is the exclusion of state supplements to local property taxes for operations and capital outlay purposes. In addition, charter schools have not been eligible to receive state funding for student transportation, although some of the charter schools do arrange for transportation on public transit systems or charter buses.

If fiscal year 2005 data were available, they would show a smaller per-pupil funding gap between charter schools and districts because of the federal grant from the State Charter School Facilities Incentive Grants Program that increased charter school funding in FY 2005 by about \$427 per pupil. This would close about half of the \$801 per-pupil gap shown in this analysis. However, the State Charter School Director estimates current-year (FY 2006) funding from this grant at only \$200 per pupil.

In addition to funding disparity, charter schools face several other challenges. Finding and financing adequate facilities, administrative cost funding, personnel benefits and compensation and proper knowledge of administrative procedures and requirements rank high as concerns for charter school leaders.

## FACILITIES

In order to obtain facilities, charter schools have entered into a variety of financial arrangements. While the majority of charter schools have lease agreements, some schools have arranged lease-to-own contracts or purchases of facilities. However, charter schools' legal ability to

borrow is in question, because state statutes do not authorize them to enter into debt. However, it seems evident that those charter schools that also incorporate as a 501(c)(3) nonprofit entity are able to borrow through the laws that govern nonprofits. Whether they are allowed to borrow or not, it is difficult for a charter school to save up reserves for a down payment for a facility purchase. Because of this, most are leasing their facilities, although many would prefer to own them.

## ADMINISTRATIVE FUNDING

Administrative funding is another challenge for charter schools. The formula for awarding administrative cost funding treats charter schools as *one* district.<sup>6</sup> As enrollment increases in charter schools as a whole, their cumulative total as a district increases in size, and per-student administrative funding has decreased from a FY 2003 value of \$74 to less than \$5 in FY 2006. Proposals for changing funding formulas have been raised, and efforts are underway to draft bills for the 2006 legislative session.

## PERSONNEL ISSUES

Recruiting, paying, and retaining qualified teachers ranks high on the list of challenges facing charter school operators. Median total compensation for charter school teachers is approximately 30% less than for teachers employed in district schools. It is difficult to correlate compensation with the quality of teachers working at charter schools. Individual, highly qualified teachers may be willing to sacrifice pay or benefits in exchange for working in a school that encourages creativity or has adopted a curriculum they find favorable.

In addition to salaries, charter schools are challenged to provide for health and retirement benefits. Benefit costs account for approximately 30% of total salaries and wages for districts and 25% for charter schools. Most charter schools do offer some form of retirement options ranging from private accounts such as a 401(k) or 403(b) or participation in the Utah Retirement System. Some charter schools, however, do not provide any form of retirement benefits.

## ADMINISTRATIVE PROCEDURES

Acquiring proper knowledge of administrative and reporting requirements is another challenge charter schools face. However there are several resources available to help charter schools. Funded by a federal dissemination grant through City Academy, the Technical Assistance Project for Utah Charter Schools (TAP) is a clearinghouse of information for new and existing charter schools. The Utah Charter Schools Office within the State Office of Education has recently doubled in size with the creation of two new positions to offer increased assistance to charter school operators.

## CONCLUSION

Charter schools do face many challenges; however, there are potential solutions to these issues. If policymakers feel that the charter school experiment is working, some attention must be paid to creating funding systems that will allow charter schools to continue to succeed by reducing their financial risks and allowing adequate resources

to perform their educational responsibilities well. The most useful solutions would include increasing per-pupil funding to charter schools, avoiding lump-sum funding that gets diluted by a growing charter school population, and reducing reliance on temporary grants from the federal government.

**ENDNOTES**

<sup>1</sup> This report focuses on budgetary data for FY 2004, which was the latest final data available at the time of this analysis.

<sup>2</sup> Local replacement funding is sometimes referred to as property tax replacement funding.

<sup>3</sup> In FY 2003-2004 \$3,092,825 was appropriated for local replacement dollars; FY2004-2005 \$5,002,450 and \$12,559,950 for FY 05-06 per HB 382, Utah Code 53A-17a-104(2)(bb).

<sup>4</sup> These figures exclude funds for non K-12 programs, building reserves, “other governmental and enterprise” funds, and food services funds. These charts include federal startup grants for charter schools.

<sup>5</sup> States receive 90 percent of an agreed-upon per-pupil amount from the federal grant in the first year, phasing down to 20 percent in the fifth year before being completely phased out. U.S. Department of Education, State Charter Schools Facilities Grant Incentive Program. Available from: <http://www.ed.gov/programs/statecharter/index.html>

<sup>6</sup> Each charter school essentially operates as a one-school district; recognizing the challenges this presents, the State Office of Education began awarding charter schools administrative funding in FY 2003.

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This research report was written by Holly Farnsworth and Executive Director, Steve Kroes. Mr. Kroes may be reached for comment at (801) 355-1400. Mr. Kroes may also be contacted by email at: [steve@utahfoundation.org](mailto:steve@utahfoundation.org). For more information about Utah Foundation, please visit our website: [www.utahfoundation.org](http://www.utahfoundation.org).

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