10-2021

Charter School Funding: Dispelling Myths about EMOs, Expenditure Patterns, & Nonpublic Dollars

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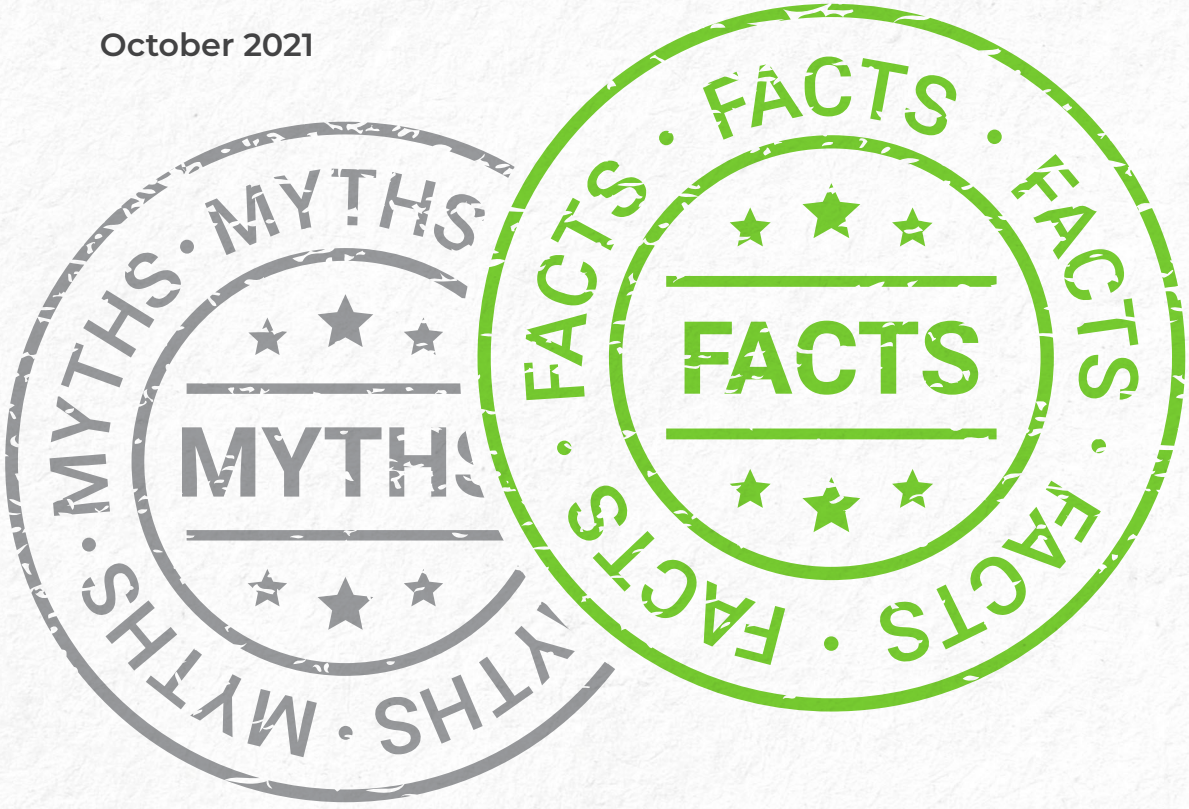

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https://scdp.uark.edu/charter-school-funding-dispelling-myths

The University of Arkansas was founded in 1871 as the flagship institution of higher education for the state of Arkansas. Established as a land grant university, its mandate was threefold: to teach students, conduct research, and perform service and outreach.

The College of Education and Health Professions established the Department of Education Reform in 2005. The department's mission is to advance education and economic development by focusing on the improvement of academic achievement in elementary and secondary schools. It conducts research and demonstration projects in five primary areas of reform: teacher quality, leadership, policy, accountability, and school choice.

The School Choice Demonstration Project (SCDP), based within the Department of Education Reform, is an education research center devoted to the non-partisan study of the effects of school choice policy and is staffed by leading school choice researchers and scholars. Led by Dr. Patrick J. Wolf, Distinguished Professor of Education Reform and Endowed 21st Century Chair in School Choice, SCDP's national team of researchers, institutional research partners and staff are devoted to the rigorous evaluation of school choice programs and other school improvement efforts across the country. The SCDP is committed to raising and advancing the public's understanding of the strengths and limitations of school choice policies and programs by conducting comprehensive research on what happens to students, families, schools, and communities when more parents are allowed to choose their child's school.

Executive Summary

Three decades after the first charter school law passed in the United States, myths about these public schools not only persist but continue to fuel strong claims and divisive debates. Commentators point to education management organizations (EMOs), for-profit organizations which manage or operate a network of charter schools, as examples of private entities supposedly profiting off public education.

In this report, we dispel three common myths about charter schools and their funding, spending, and management (see box). We draw upon comprehensive school funding data collected from traditional public schools (TPS) and public charter schools in 18 cities during fiscal year (FY) 2018. In a November 2020 report, *Charter School Funding: Inequity Surges in the Cities*, we demonstrated that the public charter schools in those 18 cities received on average one-third less funding than their respective TPS.[1] Here we drill down deeply into those data to test claims about public charter schools and the myths surrounding them.

Charter School Myths Debunked in this Report

MYTH 1 Funding for charter schools accurately reflects the needs of their students and is equitable.

FACT **Charter schools are systematically underfunded relative to TPS and funding gaps are unrelated to the proportion of low-income students they serve.**

MYTH 2 Charter schools take taxpayer money out of public education and from instructing students and put it into private sector profits.

FACT **Charter schools are public schools that dedicate a higher proportion of their funds to student instruction than TPS do.**

MYTH 3 Charter schools receive more nonpublic funding per pupil than TPS do and so are not reliant on public funding in the same way TPS are.

FACT **During many years and in numerous cities, charter schools receive less nonpublic funding per pupil than TPS do and rely almost exclusively on funding from public sources.**

Belief in these myths likely leads to legislation such as U.S. House Resolution 4502 (H.R. 4502), which the Biden Administration supports. H.R. 4502 would eliminate all federal funding to public charter schools that private organizations operate. The legislation could be understood to apply only to charter schools that EMOs manage or, alternatively, to affect every charter school that contracts with a private company for any support in delivering education, food, or transportation to its students. TPS are immune from the restriction. We simulate the effects of H.R. 4502, demonstrating that hundreds of thousands of highly-disadvantaged students whom EMO charter schools serve will suffer the loss of educational resources should it pass.

The key facts from our study are summarized below:

Simulating the Effects of H.R. 4502

- Because nearly all charter schools pay private vendors for some products or services — just as TPS do —if H.R. 4502 is passed and interpreted to apply to all public charter schools, then charter school students could lose an average of $1,131 per pupil in school resources, widening the funding gap by 14.5 percent.
- For-profit EMOs only manage 5.7 percent of the public charter school enrollment in this study. The remaining 94.3 percent of charter school enrollment in the sample is managed either by non-profit charter management organizations (CMOs) (53.7 percent) or independently (40.6 percent).
- Charter schools managed by EMOs received the lowest amount of per-pupil funding of any type of public school, with revenues that averaged 55.9 percent lower than TPS revenues, even though EMOs served the highest proportion of low-income K-12 students of any type of public school.
- In nine of the cities, the effect of prohibiting any federal funds from supporting the students in charter schools that EMOs managed would be zero because they do not host a single EMO-managed charter school.
- For the nine cities in the study with EMO-managed charter schools, prohibiting

The Cities in the Study

- Atlanta
- Boston
- Camden
- Chicago
- Denver
- Detroit
- Houston
- Indianapolis
- Little Rock
- Los Angeles
- Memphis #
- New Orleans
- New York
- Oakland
- Phoenix
- San Antonio
- Tulsa
- Washington, D.C.

Includes metropolitan Memphis plus some surrounding communities in Shelby County.

EMOs that managed charters received the lowest amount of per-pupil funding of any type of public school.

federal funding would reduce per-pupil revenue by $1,014 on average and increase the funding gap for EMOs from 55.9 percent to 59.8 percent less than what is spent on students in TPS in those cities.

- Since most federal funding of education is targeted to disadvantaged subgroups of students, public charter school sectors in Camden and New Orleans, which disproportionately serve low-income students, would lose $1,743 and $2,048 per pupil in revenue, respectively, under H.R. 4502.

Dispelling Myths about Equitable Funding

- Public charter schools enrolled large proportions of low-income students in FY2018. On average, 74.5 percent of charter school students lived with low-income families in these 18 cities.
- Charter schools that enrolled larger proportions of low-income students faced, if anything, larger funding gaps compared to TPS.
- EMOs tended to enroll larger proportions of low-income students than TPS did and tended to face larger funding gaps compared to TPS.

Charter schools channeled a higher proportion of their resources directly into the classroom compared to TPS.

Dispelling Myths about Expenditure Patterns

- Public charter schools spent a greater fraction of their revenues on instructional expenses than TPS did. Although charter schools received fewer education dollars than TPS did, charter schools channeled a higher proportion of their resources directly into the classroom compared to TPS.
- EMOs and CMOs devoted slightly larger fractions of their expenditures to instruction compared to TPS, while a much larger fraction of spending by independent charters focused on instruction compared to TPS.
- Leadership expenses consumed a larger fraction of expenditures for charter schools compared to TPS across all management types (EMOs, CMOs, and independents).
- TPS spent a greater proportion of their funding on facilities and instructional support than public charter schools did.

Dispelling Myths about Nonpublic Funding

- Charter schools received an average of $1,499 fewer nonpublic dollars per student than TPS did across the 17 cities with data, representing a disparity of 57 percent.

Charter schools that enrolled larger proportions of low-income students faced, if anything, larger funding gaps compared to TPS.

- In 11 cities, charter schools received fewer nonpublic dollars per student compared to TPS. In six cities, charter schools received more.
- Nonpublic funding represented a small portion of overall revenues in both public school sectors. Across the 17 cities with data, nonpublic dollars composed 11 percent of overall revenues per student in TPS and just 6 percent of overall revenues per student in charter schools.
- Although charter schools received more philanthropy dollars per student than TPS did across the 15 cities with adequate data, the disparity was slightly more than $300 per student, which is less than 4 percent of the overall funding disparity of $7,715 per student favoring TPS in FY2018.
- Over 95 percent of charter school philanthropy went to just one-third of the charter schools in our sample.

Charter schools received an average of $1,499 fewer nonpublic dollars per student than TPS did across the 17 cities with data.

Policy Recommendations

- Policymakers should eschew initiatives such as H.R. 4502 that have the practical effect of reducing funding for low-income students in public schools.
- Public school funding laws should be overhauled so that more dollars are tied to individual student needs and fewer dollars are based on the type of public school that a student attends.

Charter schools received significantly lower revenues than their TPS did. Charter schools, especially EMOs, enrolled large proportions of low-income students. Revenue per pupil was uncorrelated with their enrollment of low-income students. Neither did nonpublic sources of revenue compensate for these funding gaps. In FY2018, TPS received more nonpublic funding than charter schools did, on average. Even with the lower revenue per pupil that charter schools received, charter schools, especially EMOs, devoted larger proportions of expenditures to instruction than TPS did. Defunding public charter schools that EMOs manage would increase the gaps in education funding that hundreds of thousands of low-income students experience.

Acknowledgements

We thank Gary Larson, Kristin Costa, Stacy Moore, and Samantha Jacobs of Larson Communications for project management and communication support. We are grateful to Marlo Crandall of Remedy Creative for graphic design and formatting work. We thank Tom Bennett for help in posting and disseminating this report. We appreciate the constructive recommendations of our Research Advisory Board composed of Charles Barone, Stephen Cornman, Ben DeGrow, Adam Hawf, Noor Iqbal, Drew Jacobs, Martin Lueken, Matt Major, Josh McGee, James Merriman, and Colin Miller. We thank the Walton Family Foundation and the Charles Koch Foundation for their grant support and acknowledge that the content of this report is entirely the responsibility of its authors and does not necessarily reflect the positions of the Foundation, the University of Arkansas, or Western Carolina University.

Introduction

Public charter schools enroll 7 percent of public school students and are a growing part of the public education landscape.[2,3] Much of the research on charters demonstrates that they are at least as effective as traditional public schools (TPS)[4] and yet they receive, in many cities, significantly less funding. A previous report in this series highlighted the revenue inequity across public school sectors, as well as the variation in this inequity across 18 cities. Among 18 cities in that study, public charter schools received an average of 33 percent less funding than the TPS in their metro area.[5] This funding inequity has increased over time. Legislation currently before the U.S. Congress would worsen the inequitable funding of public charter schools.

U.S. House Resolution (H.R.) 4502 proposes to remove federal funding from charter schools that contract "with a for-profit entity to operate, oversee or manage the activities of the school."[6] The bill targets for-profit charter schools — those that education management organizations (EMOs) manage— although it likely could affect non-profit charter schools that contract with accounting firms, for-profit meal providers, janitorial companies, and other service providers. While charter schools already receive significantly less funding than TPS take in, this bill proposes to increase that funding gap even further.

Nationally, more than 3 million children are enrolled in public charter schools[7] including more than half a million in charters managed by a for-profit company. If H.R. 4502 applies to all charter schools, our calculations — using the sample of 18 cities — show that the children enrolled in charter schools stand to lose an average of 7.1 percent of their school funding. The cut in funding would reduce per-pupil revenues for charter schools from 33 percent less funding than TPS to 38 percent less. If applied only to charter schools that a for-profit company manages, students in those schools would go from receiving 56 percent less revenue per pupil than TPS to 60 percent less.

The cut in funding would reduce per-pupil revenues for charter schools from 33 percent less funding than TPS to 38 percent less.

This willingness to target for-profit entities in the charter school sector, and the children they serve, likely stems from common myths about public charter schools. We address these myths in this report. Specifically, for fiscal year (FY)

FY2018, we show that funding for public charter schools lagged far behind TPS and was uncorrelated with the percent of students from low-income households enrolled in each sector. Further, charter schools devoted larger portions of their spending to instruction than TPS did. Even for-profit EMO charters prioritized the funding of students in the classroom to a greater extent than TPS did. Finally, charter schools did not have a reliable or overly generous philanthropic base to make up for the large gaps in public funding that they experienced.

The data used to address these myths are from 18 metropolitan areas: Atlanta, Boston, Camden, Chicago, Denver, Detroit, Houston, Indianapolis, Little Rock, Los Angeles, Memphis, New Orleans, New York City, Oakland, Phoenix, San Antonio, Tulsa, and Washington, D.C. We analyzed data from state documents and school reports for the 2017-2018 school year, which aligns with FY2018. This report is the fourth in a series of analyses that use data from FY2018, as that was the most recent year with complete data on revenues and expenditures when this work began.[8] The audited financial records that inform the study are broken out by spending categories wherever possible.

Even for-profit EMO charters prioritized the funding of students in the classroom to a greater extent than TPS.

Methodology

This report analyzes all traditional and charter public schools within the borders of 18 metropolitan areas. The Memphis data include some schools outside of metropolitan Memphis because several surrounding communities join Memphis in comprising the Shelby County Public School District. We account for all revenue to the schools in each sector. We collect data from state governments and, when necessary, audited financial statements. When comparing funding for schools, we

Why do different sections of our analysis exclude different cities?

We include a city in our analysis if the documentation we draw upon allows us to assign over 75 percent of the dollars in its charter and TPS sectors to the specific revenue or expenditure categories that are the focus of the report section. If the details regarding 25 percent or more of the revenue or spending are missing, we exclude that city so as not to distort the analysis. The cities excluded vary by topic.

Background: Data for the 18-city analysis for TPS and charter schools are sourced from official authoritative documents — primarily State Departments of Education data collection and independent audits. No single state or federal source provides sufficiently detailed data for every city in this report. The federal NCES Form-33 data, which captures state reporting information, leaves out key details and omits some key financial transactions. State Departments of Education differ in their

data collections. Some states capture charter school data and others do not. Some gather detailed data, and others do not.

For some cities, data from authoritative sources were sufficient for some sections of our report but insufficient for others. Data deficiencies stemmed from: (1) specific data sets which were not available; and (2) data sets that lacked sufficient detail to permit us to code expenditures down to the functional level. Specifically:

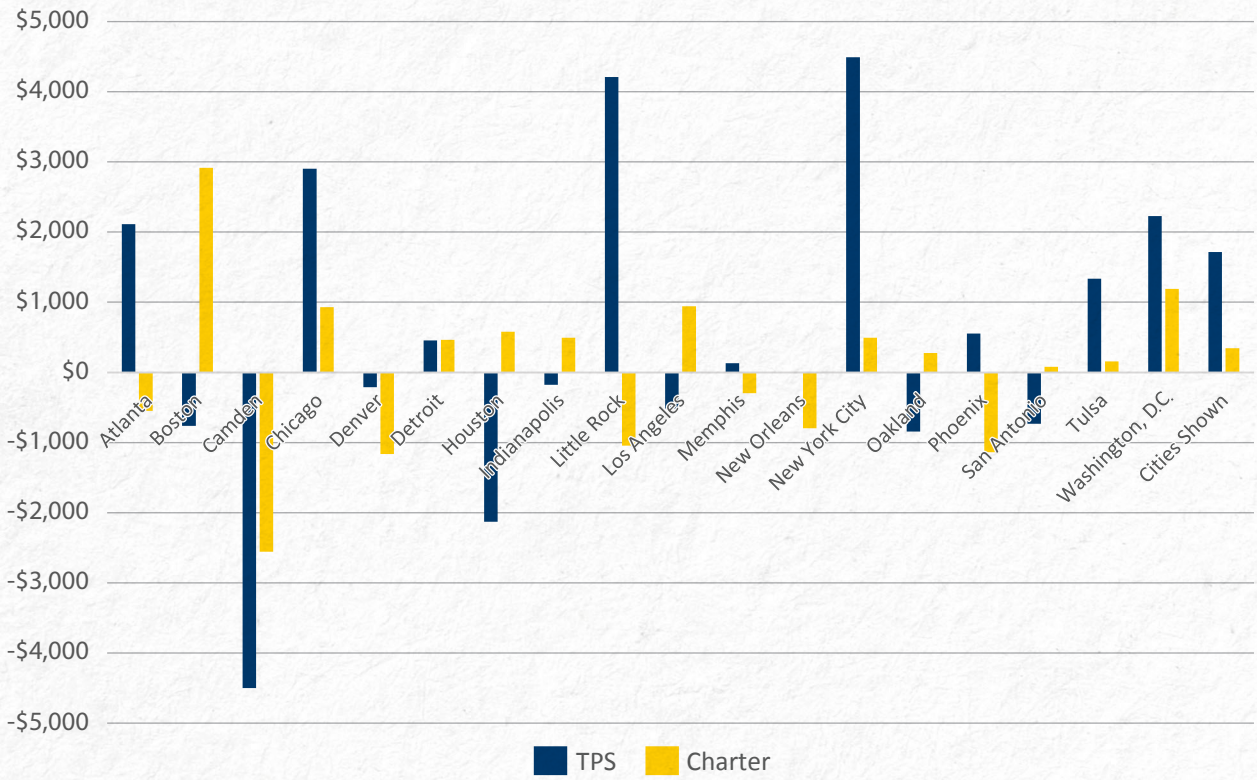
- General revenues, expenditures, and enrollments
  - The majority of the analysis and related charts cover all 18 cities. We note specifically whenever a section excludes any city. The reason for the exclusion of a city is always due to (1) data deficiency or (2) insufficient detail.
- Analysis of expenditures by five functions at the sector level (TPS vs. charter school)
  - The data for 15 cities include sufficient finance coding specificity to classify expenditures into consistent functional categories for comparison purposes: Instruction, Instructional Support, Operations, Other Obligations, and Leadership. Whenever an expenditure lacks the necessary details to assign it to one of the above categories, the amount of that expenditure is assigned the functional classification "Unknown." For most cities these Unknown amounts are trivial, but in Chicago, New Orleans, and Phoenix they exceed 25 percent of total expenditures for either the TPS or charter sectors. For those cases, we exclude those three cities from the functional spending analysis.
- Analysis by charter school management organization expenditures for — EMO, CMO and independent charters
  - All 18 cities have CMO and independently managed charter schools. Only nine cities have EMO-managed charter schools. Those nine cities are Atlanta, Chicago, Detroit, Indianapolis, Little Rock, Los Angeles, New York City, Phoenix, and Washington, D.C.
  - Generally, when TPS vs. EMO charter comparisons are made, the data used for analysis include data only from those nine cities.
  - When charter expenditure data are disaggregated by the type of charter management (EMO, CMO, independent), six cities are excluded because their Unknown amounts in either TPS or charter school data sets exceed 25 percent of total expenditures. The six excluded cities are Chicago, Memphis, New Orleans, Oakland, Phoenix, and Washington, D.C.
- Nonpublic revenues
  - The entire discussion and related charts for the nonpublic revenues section of our analysis exclude New Orleans due to lack of data.
- Philanthropic revenues
  - The entire discussion and related charts for the philanthropic revenues section of our analysis exclude three cities due to lack of data: New Orleans, Los Angeles, and Oakland.

examine revenues. When comparing spending for schools, we examine expenditures. Revenues do not equal expenditures. Revenues are funds entering an organization; expenditures are funds exiting an organization. Revenues and expenditures regularly differ for both TPS and public charter schools.

Generally Accepted Accounting Principles (GAAP) are a set of rules that encompass the details, complexities, and legalities of corporate accounting. The Financial Accounting Standards Board (FASB) uses GAAP as the foundation for its comprehensive set of approved accounting methods and practices. GAAP clearly define revenues distinctly from expenditures.

Figure 1 displays the difference in each city and sector. In some cities, such as New Orleans, Memphis, Indianapolis, and Denver, TPS reported remarkably similar revenues and expenditures; the difference for these cities was about $200 per pupil or less. In other cities, the TPS report large differences between revenues and expenditures. The Camden TPS overspent their revenue by $4,498 per pupil. The New York City TPS underspent their revenue by $4,492 per pupil, and the Little Rock TPS did likewise by $4,210 per pupil. On average, revenue for all 18 cities were 7 percent higher than expenditures. In nine of the cities, TPS had higher revenues than expenditures, in Detroit they were the same, and in eight cities expenditures were higher than revenues.

Figure 1: Revenues Less Expenditures per Pupil, by Sector, for 18 Cities, FY2018



Note: Summaries for whole sectors or for the sample are weighted by their respective student populations.

The same holds true among charter schools. Revenues differed from expenditures by an average of 2 percent across the 18 cities analyzed. In Detroit, the difference was $461 per pupil; in Atlanta it was -$550. Whether revenues proxy well for expenditures varies greatly by city. The differences range from expenditures at $2,554 over revenues per pupil in Camden, to revenues at $2,916 above expenditures per pupil in Boston. Charter schools in 11 cities had higher revenues than expenditures; in the remaining seven cities, charter expenditures were greater than revenues.

These differences are reasonable and appear to be consistent with GAAP. Revenues and expenditures differ; using one to measure the other imperfectly captures differences across cities and sectors. Therefore, funding should always be measured by revenues, and spending should always be measured by expenditures.

When we examine revenues and expenditures, we also evaluate who benefits from the revenues and the expenditures. In cases where a TPS has paid for personnel or provided services on behalf of the charter schools within its boundaries (in-kind), we record these revenues or expenditures for the charter schools, thus reducing funding and expenditures for the TPS. These in-kind services often involve transportation, access to facilities, or special education services.[9, 10] We determine the value of in-kind services in several ways: first, by using rates that have been assigned either by the state or the public school system; and second, by using market information about the average cost of the service in the city, such as facility rental data. We never attribute to TPS revenues or expenditures that directly benefit students in charter schools.

Funding should always be measured by revenues, and spending should always be measured by expenditures.

Removing Federal Funds from EMOs

H.R. 4502 proposes to cut funding from the federal Charter Schools Program and end federal funding of charter schools that contract with for-profit entities. Because the bill removes funding from public charter schools but not TPS, if passed, it would widen the revenue gaps for charter schools. To demonstrate this fact, we use data from the 18 metropolitan area sample to simulate the effects of the bill on charter schools.

The language of H.R. 4502 is ambiguous regarding which charter schools would be affected. Section 314 reads, "None of the funds made available by this Act or any other Act may be awarded to a charter school that contracts with a for-profit entity to operate, oversee or manage the activities of the school."[11]

Charter schools are managed in three ways. Nationally, about 65 percent of charter schools are independently operated.[12] The remainder are managed in a network by a management organization. Some of these management organizations

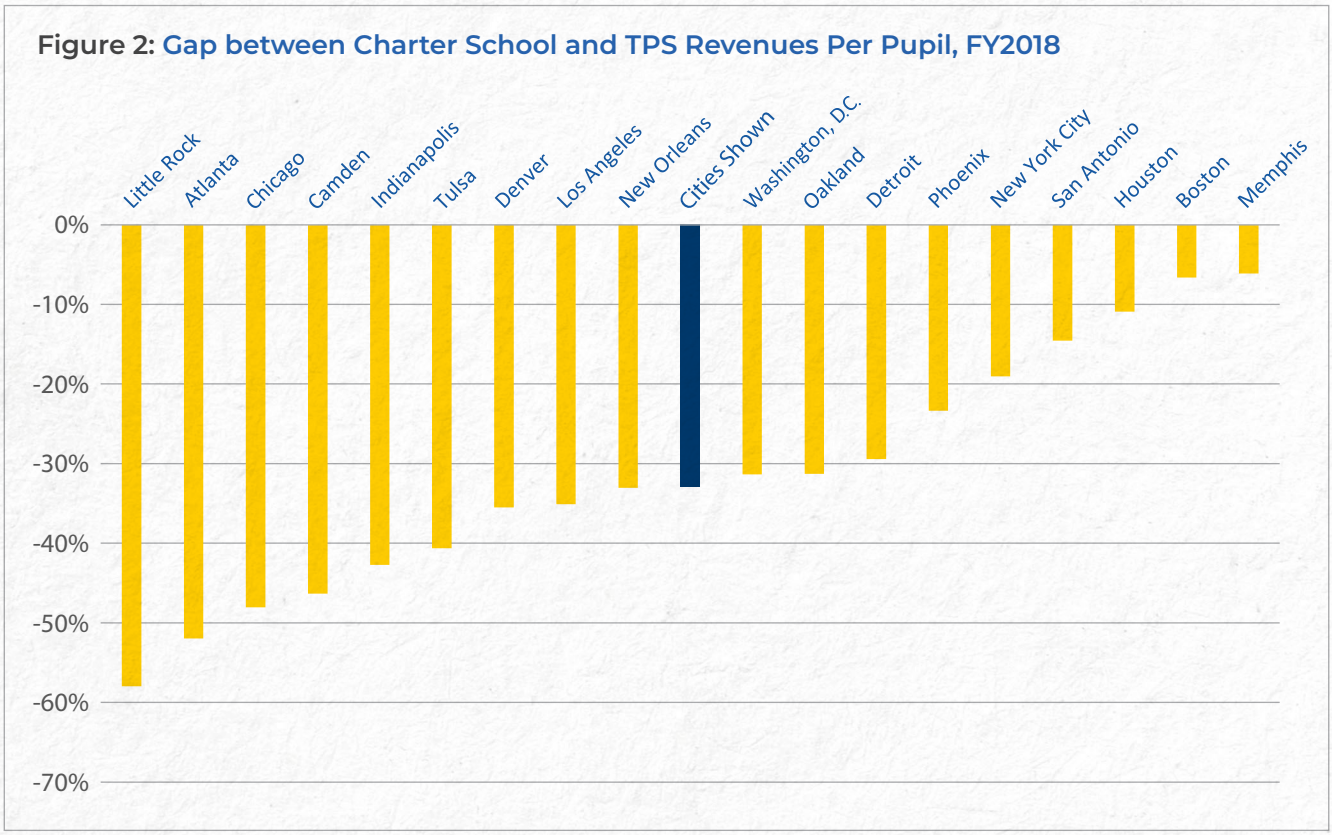
have a non-profit tax status and are referred to as charter management organizations (CMOs). Others have a for-profit tax status and are referred to as education management organizations (EMOs). The National Alliance for Public Charter Schools reports that CMOs manage 23 percent of charter schools and EMOs manage 12 percent.

The bill clearly would affect for-profit charter schools that EMOs manage. Other charter schools may be impacted because nearly all charters — just like TPS — contract out some services to for-profit entities.[13] Charter advocates worry that the bill's restrictions may be applied to all charter schools, especially given its unclear language.

One purpose behind charter schools is to increase flexibility and innovation in how educational services are provided.[14] Charters can employ distinctive staffing and instructional models. Charter schools also use that flexibility in a variety of ways: organizing under different management structures, choosing different allocations of expenditures, and the like. This innovation includes contracting with for-profit entities for various services.

Charter schools operate with less revenue per pupil than TPS do. Figure 2 documents the gaps in funding for public charter schools compared to their city's TPS. These data replicate the analysis from a previous report from the School Choice Demonstration Project.[15] Among these 18 cities, charter schools averaged 33 percent less revenue per pupil than TPS. This gap differed substantially across cities. The smallest gaps were in Memphis, at 6 percent, and Boston, at 7 percent. Houston (11 percent) and San

Figure 2: Gap between Charter School and TPS Revenues Per Pupil, FY2018



Antonio (15 percent) posted somewhat larger gaps. Gaps in most cities were closer to 30 or 40 percent. Little Rock had the largest gap, with charter schools receiving 58 percent less revenue than TPS.

We first consider the possibility that H.R. 4502 applies to all charter schools and simulate the effect of the loss of federal funds on the revenue gap. To do so, we determine how much revenue charter schools receive from federal sources. In the 18 metropolitan areas in the sample, federal funds averaged 7.1 percent of public charter school revenues. In comparison, federal funds made up 7.5 percent of revenues in TPS.

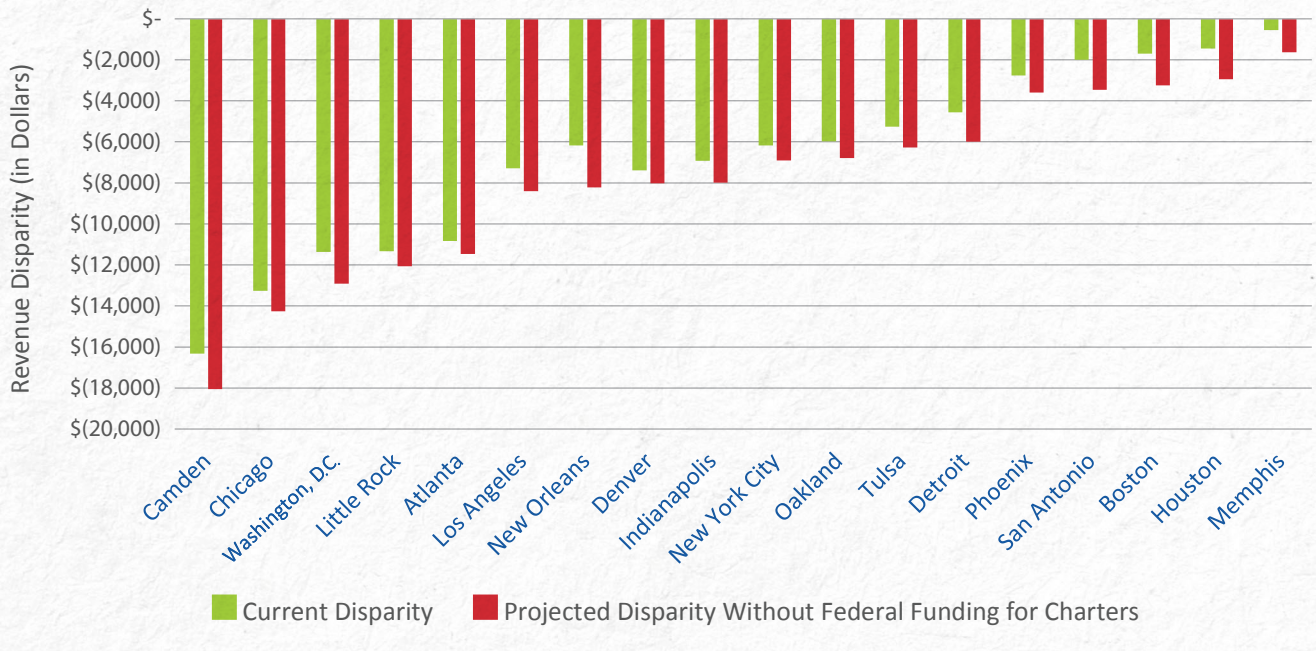
Among these 18 cities, charter schools averaged 33 percent less revenue per pupil than TPS.

Among our 18 metropolitan areas, the percent of charter school revenues made up of federal funds ranged from 2.8 percent (New York City) to 16.4 percent (New Orleans). Charter schools in many metropolitan areas received 6 to 9 percent of revenues from federal sources.

We simulate what would happen if charter schools were prohibited from receiving federal funds. We subtract federal revenues from total revenues to charter schools in order to calculate revenues per pupil in the absence of federal funding. If charter schools are prohibited from receiving federal funds, the already large funding gaps charter schools experience would increase.

Figure 3 shows the dollar gap between public charter schools and TPS with and without federal funding. Gaps differ across cities. Losing federal funding would widen these funding gaps on average by $1,131 per pupil. In cities such as Atlanta and Denver, the gap would increase by $630 and

Figure 3: Difference in Total Revenue Per Student with and without Federal Funding for Public Charter Schools, FY2018



$638 per pupil, respectively; in Camden and New Orleans, the gap would increase by $1,743 and $2,048 per pupil, respectively.

Because federal funds made up differing fractions of charter school funding, the loss of federal funds would increase the gap by anywhere from 2.8 to 16.4 percentage points across the 18 cities. These are significant cuts in revenue, especially for schools that already operate with much lower funding than TPS.

The rhetoric around H.R. 4502 suggests that its authors intend only for these cuts to apply to for-profit charter schools.[16, 17]

Losing federal funding would widen these funding gaps on average by $1,131 per pupil.

EMOs constitute a relatively small fraction of the charter school sector. Across all cities in this study, EMOs enrolled 5.7 percent of public charter school students (Figure 4). Only half of the cities in the sample have any EMO-managed charter schools. In those nine cities, EMOs made up anywhere from 2.6 percent of the charter school sector in New York City to 42.4 percent in Detroit. In the full sample, CMOs were the most common management structure, making up 53.7 percent of the charter sector. Independent charter schools comprised 40.6 percent of the charter sector and EMOs the remaining 5.7 percent.

Figure 5 illustrates that all types of charter schools received lower revenues than TPS. Gaps, however, differ by

EMOs constitute a relatively small fraction of the charter school sector.

Figure 4: Charter Market Share by Charter Type, FY2018

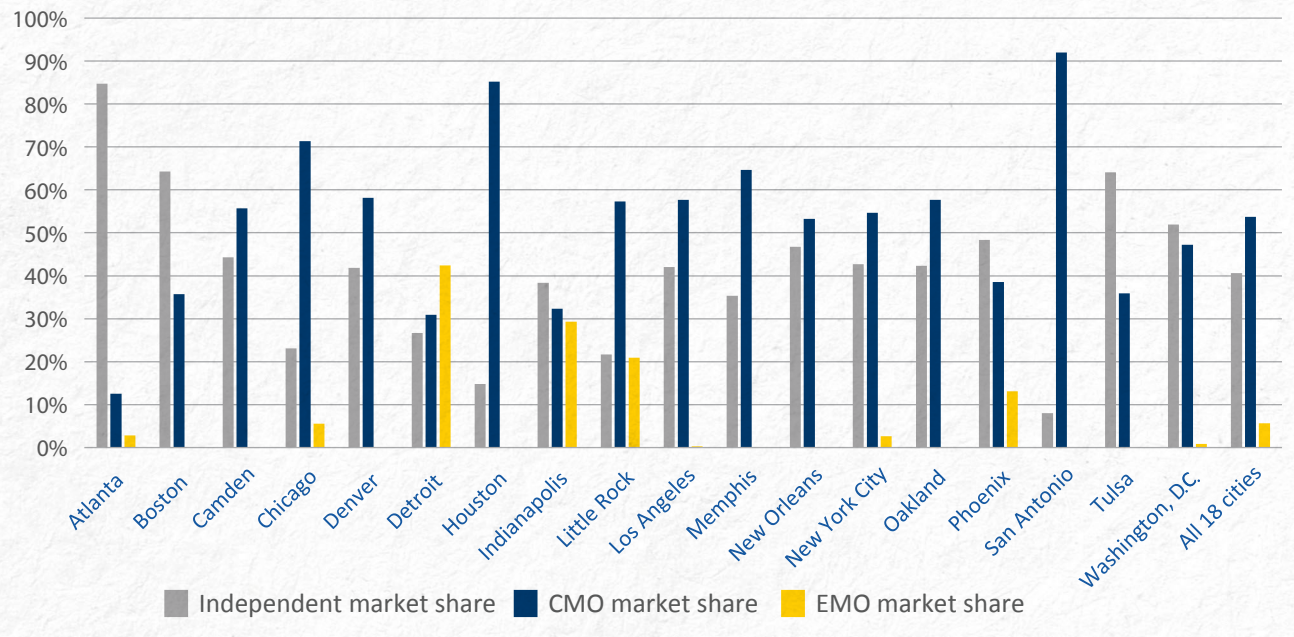
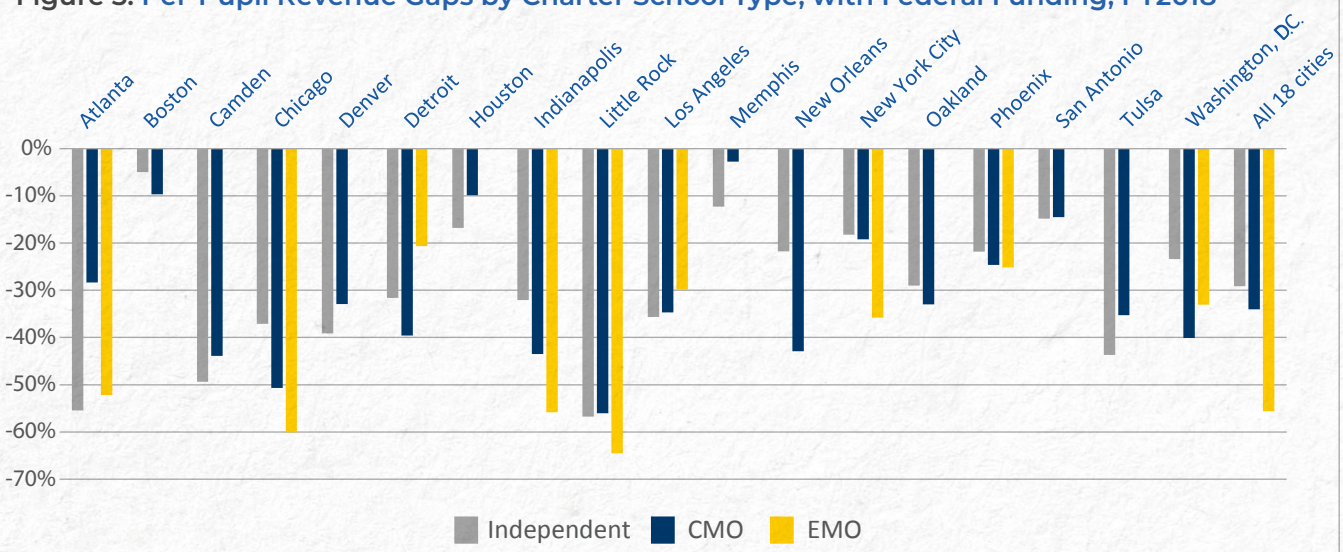


Figure 5: Per-Pupil Revenue Gaps by Charter School Type, with Federal Funding, FY2018



management type. Across all 18 cities, revenue gaps were smallest for independent schools, at 29.1 percent less than their TPS. Next is CMOs, with 34.0 percent less in funding than their TPS. The charter school funding gap for schools that EMOs managed was a yawning 55.9 percent lower than their TPS.

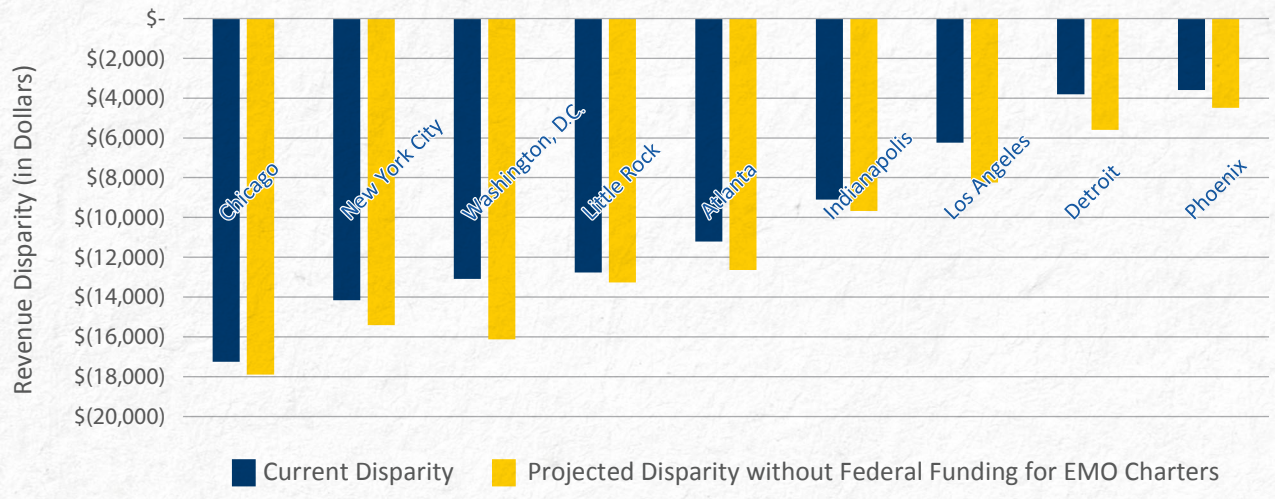
In five of the nine metropolitan areas with EMOs — Little Rock, Indianapolis, New York City, Chicago, and Phoenix — EMOs faced larger revenue gaps with their TPS compared to CMOs or independently run charter schools. Only in Atlanta, Washington, D.C., Detroit, and Los Angeles did EMOs face smaller funding gaps than other management structures. EMOs in all these metropolitan areas faced significant revenue gaps compared to TPS. In Atlanta, Indianapolis, Chicago, and Little Rock, EMOs operated with less than half the funds with which TPS in the same city operated. In the other five cities with EMOs, for-profit charter schools operated with one-quarter to one-third less funding than TPS.

We simulate the effect of H.R. 4502 if applied only to EMOs for the nine cities with EMOs (Figure 6). To do so, we separate out revenues according to source, sector, and management structure. We then subtract out federal revenues from the total revenues EMOs receive and calculate their new revenue per pupil in the absence of federal revenues.

In Atlanta, Indianapolis, Chicago, and Little Rock, EMOs operated with less than half the funds with which TPS in the same city operated.

Existing large revenue gaps increase if the federal government prohibits funding EMOs. In Detroit, for example, the funding gap grows from 20.6 percent less than TPS to 29.8 percent less than TPS. This increase in inequity reflects $1,421 in lost revenue per pupil. EMOs

Figure 6: Per-Pupil Revenue Gaps Current and with No Federal Funding of EMOs, FY2018



in Washington, D.C. would take the largest dollar value hit, losing $1,545 per pupil in federal funds, increasing the funding gap from 33.1 percent that funding gap. Nationally, EMOs enrolled about 550,015 students in 2016-2017. Losing these federal funds represents a 7 percent drop in per-pupil

Existing large revenue gaps increase if the federal government prohibits funding EMOs.

less than TPS to 37.3 percent less. Across the nine cities, the bill would reduce per-pupil revenue by $1,014 and increase the funding gap for EMOs from 55.9 percent to 59.8 percent.

EMOs already were funded at significantly lower rates than other public charter schools and TPS. The bill to prohibit federal funds going to for-profit organizations only exacerbates funding for the more than half a million students who already attend schools facing large funding gaps.[18]

Why would policymakers propose such a drastic cut in education funding for students in urban public schools? Perhaps they believe certain myths about charters. We consider some of these false claims in the remainder of this report.

Common Charter School Myths

Three vicious myths poison the rhetoric surrounding public charter schools. Many commentators claim that: (1) funding for charter schools accurately reflects the needs of their students and is equitable, (2) charter schools take taxpayer money out of public education and from instructing students and put it into private sector profits, and (3) charter schools receive more nonpublic funding per pupil than TPS do and so are not reliant on public funding in the same way TPS are. Using revenue and

expenditure data from this sample of 18 cities in FY2018, we first consider and then debunk all three of these myths.

Myth 1: Funding for charter schools accurately reflects the needs of their students and is equitable.

This claim is false. In FY2018, public charter schools received less funding than TPS simply because they were charter schools. These funding gaps were uncorrelated with whether charter schools serve disproportionately more or fewer low-income students than the TPS in their city.[19] A large proportion of students who enrolled in EMOs were from low-income households. EMOs, however, faced even larger funding gaps than the overall charter sector. There is no rhyme nor reason to the funding allocation for charter schools. Funding is not equal and is not need-based. Therefore, it is inequitable.

In the analysis above, we demonstrate the large gaps in revenue between public charter schools and TPS. These funding gaps ranged from 6 to 58 percent across these cities, averaging 33 percent less revenue to public charter schools than TPS. Charter schools received significantly less funding to educate public school students than did their TPS counterparts.

First, we consider whether these gaps reflect the educational needs of the students enrolled in these schools. A rich literature documents the influence of socioeconomic status on academic outcomes.[20, 21] One might reasonably expect schools that enroll many students from low-socioeconomic status families would receive more revenue per pupil to provide adequate educations to those high-need children.

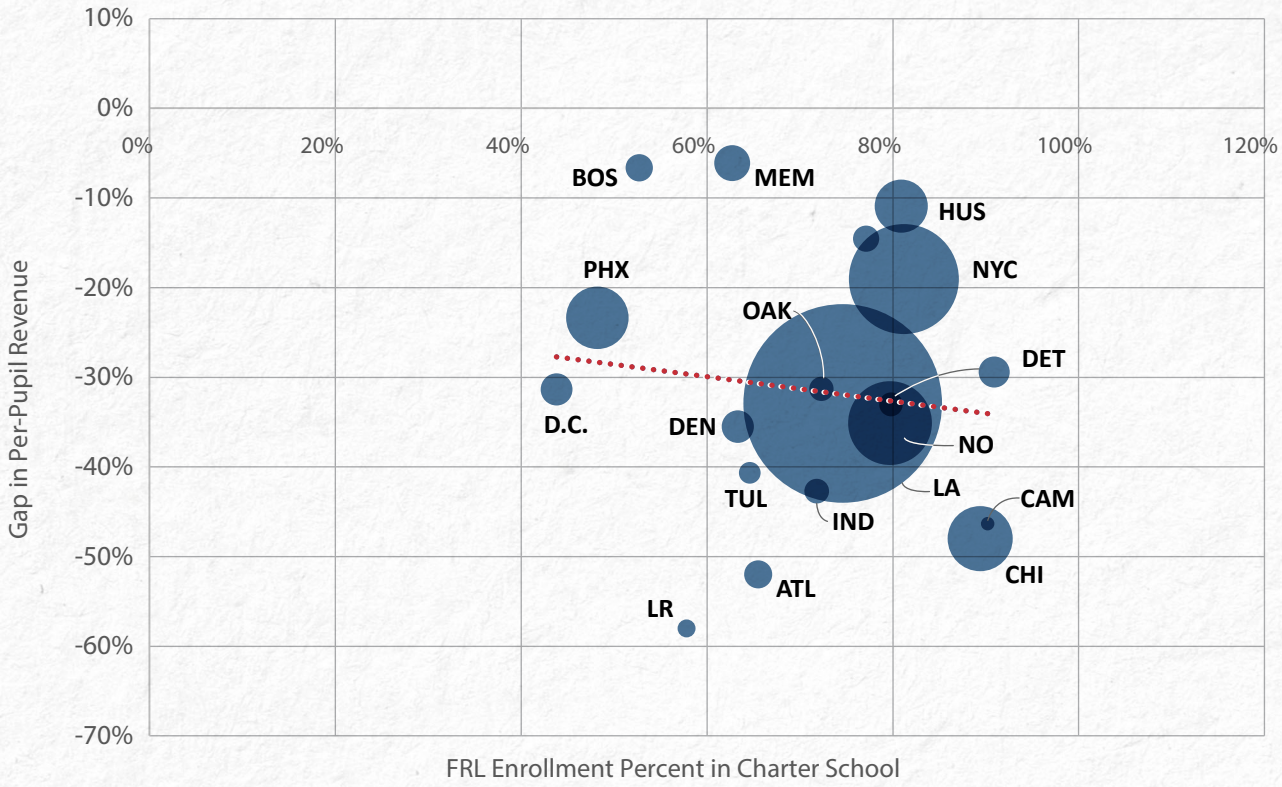
We consider this possibility for these 18 metropolitan areas. We use the percent of students eligible for free or reduced-price lunch (FRL) as an indicator of poverty. Federal guidelines are that children in families with income below 130 percent and 185 percent of the federal poverty line are eligible for free and reduced-price school lunches, respectively. In 2018, the federal poverty line for a family of four was $25,100.[22] Children in families of four earning less than $32,630 (130 percent of the federal poverty line) were eligible for free lunches. Children in families of four earning less than $46,435 (185 percent of the federal poverty line) were eligible for reduced-price lunches.

Charter schools enroll large proportions of low-income students. For example, more than 90 percent of charter school students in Camden and Detroit were FRL eligible in FY2018. On average, 74.5 percent of public charter school students in these 18 metropolitan areas lived in low-income households.

Funding is not equal and is not need-based. Therefore, it is inequitable.

We examine whether charter schools that enroll larger proportions of low-income students face smaller funding gaps. Figure 7 presents these data. Each bubble in the chart is sized proportionally to the number of public school students in the metropolitan area. If anything, Figure 7 displays a slightly negative relationship

Figure 7: Gap in per-pupil Revenue by Charter School Free or Reduced Price Lunch Enrollment, FY2018



Each bubble is sized proportional to public-school enrollment in the metropolitan area.

between the proportion of FRL eligible students in a charter sector and the size of its funding gap, suggesting that charters with proportionately more FRL students suffered with larger funding gaps. The correlation, however, is not statistically significant. The scientific interpretation of the data in Figure 7 is that cities where charter schools enrolled a higher proportion of low-income students faced statistically similar charter school funding gaps compared to cities where charters enrolled a lower proportion of low-income students.

More than 90 percent of charter school students in Camden (CAM), for example, were FRL eligible; yet charter schools in Camden faced one of the largest revenue gaps at 46.3 percent. Detroit posted the largest fraction of low-income students in charter schools at 90.9 percent and a charter school gap in revenues close to average at 29.4 percent. Washington, D.C. enrolled the smallest fraction of charter school students eligible for FRL at 43.8 percent and its charter schools faced a gap in revenues close to average at 31.4 percent. The funding gap generally was

More than 90 percent of charter school students in Camden (CAM), for example, were FRL eligible; yet charter schools in Camden faced some of the largest revenue gaps, 46.3 percent.

uncorrelated with the percent of students in charter schools who are FRL eligible.[23] Contrary to the myth, funding formulas do not more closely equalize funding for charter school sectors with higher levels of students living in poverty.

This finding, though disturbing, should not be surprising. State and local funding formulas for charter schools do little to account for the characteristics of their students. Although *federal* funding for charters is more closely linked to levels of student disadvantage, it only represented an average of 7 percent of the funding that charters received in this study and is vulnerable to political decisions in Washington, D.C. Funding formulas are not designed reliably to provide more funding to public charter schools with high poverty enrollments, although nearly all states fund TPS using formulas that reward schools with higher poverty enrollment.[24]

Socioeconomic status is a major determinant of academic success. Charter schools in these 18 cities enrolled slightly larger fractions of students in poverty than did TPS. Charter schools received less funding than TPS despite enrolling a larger proportion of students in poverty than TPS. Moreover, charter school funding gaps did not differ based on enrollment of low-income students.

Funding formulas do not more closely equalize funding for charter school sectors with higher levels of students living in poverty.

One possibility driving the relationship above is that metropolitan areas with high poverty rates tend to underfund charter schools.[25] In order to explore this question further, we take the difference between the percent of students eligible for FRL in charter schools and the percent eligible in TPS, giving us the gap in FRL enrollment between the two sectors. Overall, charter schools enrolled slightly greater fractions of students in poverty. On average, 73.9 percent of TPS students were FRL eligible and 74.5 percent of charter school students were FRL eligible.

Gaps varied across cities. In Atlanta, charter enrollment was 65.5 percent FRL eligible and TPS enrollment was 91.7 percent FRL eligible, a gap of -26.2 percent. In Camden, charter enrollment was 90.2 percent FRL eligible and TPS enrollment was 65 percent FRL eligible, a gap of 25.2 percent.

We compare gaps in enrollment of students in poverty with gaps in revenue. The two series are uncorrelated with each other. Gaps in funding were no smaller or larger when charter schools enrolled a larger proportion of low-income students than their TPS counterparts did or when they enrolled a smaller proportion. Again, we see that funding for public charter schools was disconnected from the poverty levels of their student bodies.[26] Charter

Charter schools received less funding than TPS despite enrolling a larger proportion of students in poverty than TPS.

schools did not receive extra funds on a consistent basis for educating more students living in poverty.

Perhaps H.R. 4502 is driven by the belief that EMOs differ from the pattern we observe in the overall charter sector. We analyze low-income student enrollment by charter school management structure and the funding gaps they face. Among charter types, EMOs had the highest percentage of students in poverty. For the overall charter sector in our sample, 74.5 percent of students lived in poverty. Among EMOs, that percentage was 83.0 percent, with 80.1 percent for CMOs and 65.9 percent for independents.

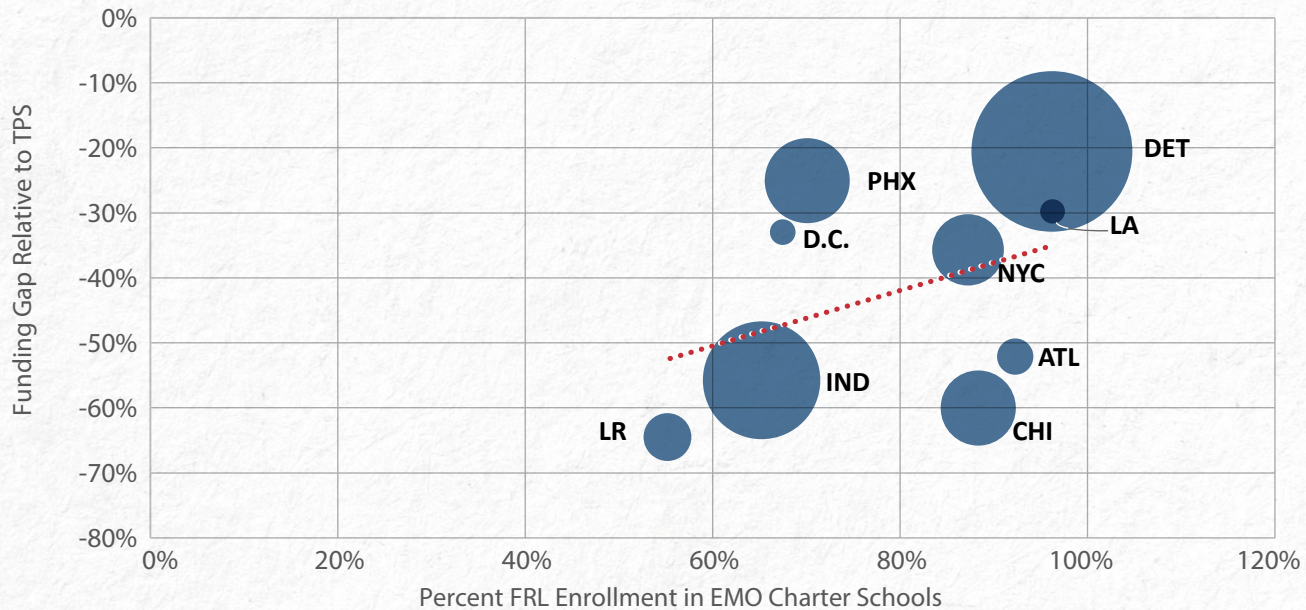
In three cities — Boston, San Antonio, and Tulsa — TPS enrolled proportionately more low-income students. In the other 15 cities, at least one type of charter school enrolled proportionately more low-income students than TPS did. In seven of the nine cities with EMOs, the EMO sector enrolled disproportionately more low-income students than other types of charter schools and TPS. Only in Indianapolis and Little Rock did EMOs enroll a lower percentage of low-income students than TPS.

EMOs tended to enroll larger proportions of low-income students, as well as face larger funding gaps compared to TPS. When we graph these two figures for the nine cities with EMOs, however, we observe a positive correlation in Figure 8. EMOs that enroll large proportions of low-income students face smaller funding gaps compared to TPS, although the correlation is not statistically different from zero.[27]

EMOs tended to enroll larger proportions of low-income students, as well as face larger funding gaps compared to TPS.

Similarly, the correlation between the gap in FRL

Figure 8: EMO Poverty Enrollments and Funding Gaps, FY2018



Each bubble is sized proportional to EMO enrollment in the metropolitan area.

enrollment and the gap in revenue per pupil for EMOs compared to TPS is positive. All EMOs faced significant gaps in revenue per pupil. Most EMOs enrolled larger proportions of low-income students than their TPS, but the gap in funding was somewhat smaller for cities where EMOs enrolled proportionately more low-income students. Even though this correlation is positive, EMOs that enrolled proportionately more low-income students received less revenue per pupil than TPS.

A large fraction of students whom EMOs educated were children from low-income families; yet, EMOs already faced significant revenues gaps. H.R. 4502's proposal to remove funding from EMOs would decrease that revenue further, thereby reducing the resources available to educate low-income children enrolled in EMO public charter schools.

Myth 2: Charter schools take taxpayer money out of public education and away from instructing students and put it into private sector profits.

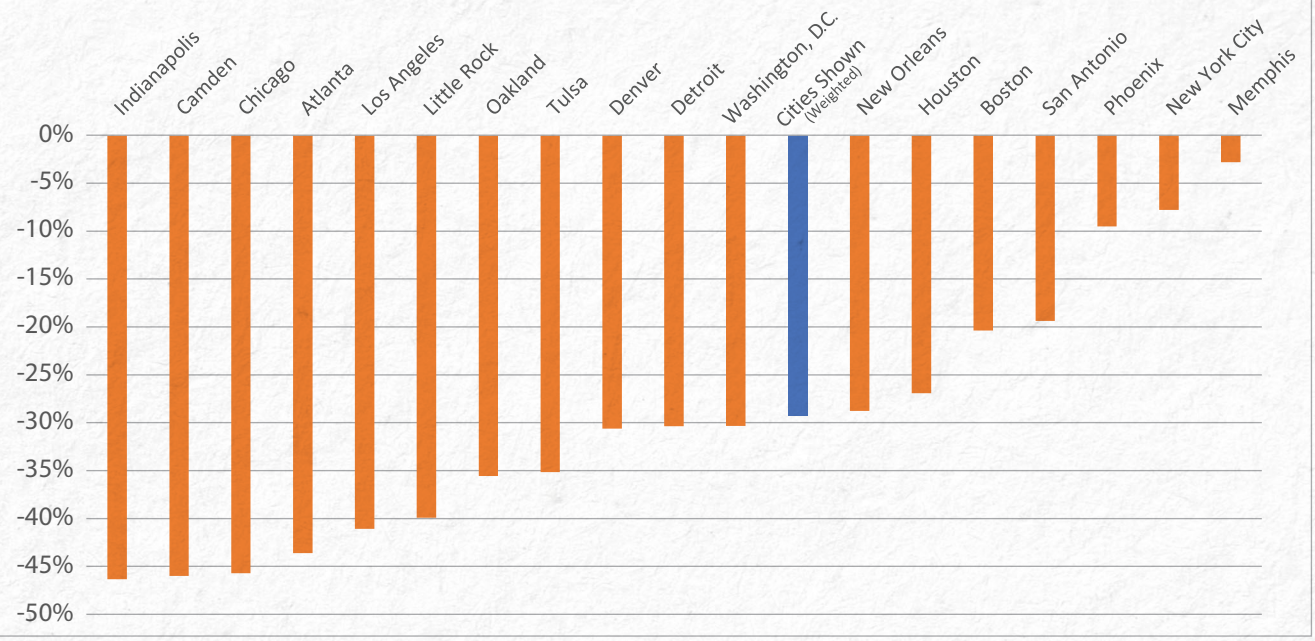
This claim is false. Charter schools are public schools and are part of the public education system. Some public charter schools combine with other charter schools under the management of education management organizations (EMOs), which are for-profit organizations. However, that does not mean that EMO-managed charters are private schools. Most TPS contract with private, for-profit companies in order to provide support in areas such as professional development, food service, custodial service, and education materials, but, like EMO charters, that doesn't mean that those TPS are private schools. EMOs represent a small fraction of charter school enrollment and, therefore, a tiny fraction of public school enrollment. In our FY2018 data, EMOs allocated their expenditures similarly to non-profit charter schools that charter management organizations (CMOs) managed. Charter schools of all stripes spent a larger proportion of funds on instructional expenses than TPS did.

Charter schools of all stripes spent a larger proportion of funds on instructional expenses than TPS did.

Because this myth centers on expenditures, the data below focus on expenditures for the 18 metropolitan areas for which we collected detailed financial records. Revenues and expenditures are related, but not the same. The gaps in revenue per pupil, which are endemic to the charter school sector, translate to lower average spending per pupil in charter schools compared to TPS. Charter schools averaged 29.4 percent lower expenditures per pupil than the TPS in their city. This charter school expenditure gap varied significantly across cities, ranging from 2.8 percent less in Memphis to 46 percent less in Camden, Chicago, and Indianapolis (Figure 9). Public charter schools in 13 of the 18 cities spent more than 25 percent less than TPS in the same metropolitan area.

Charter schools averaged 29.4 percent lower expenditures per pupil than the TPS in their city.

Figure 9: Percent Difference in Per-Pupil Expenditures by Public School Sector, FY2018

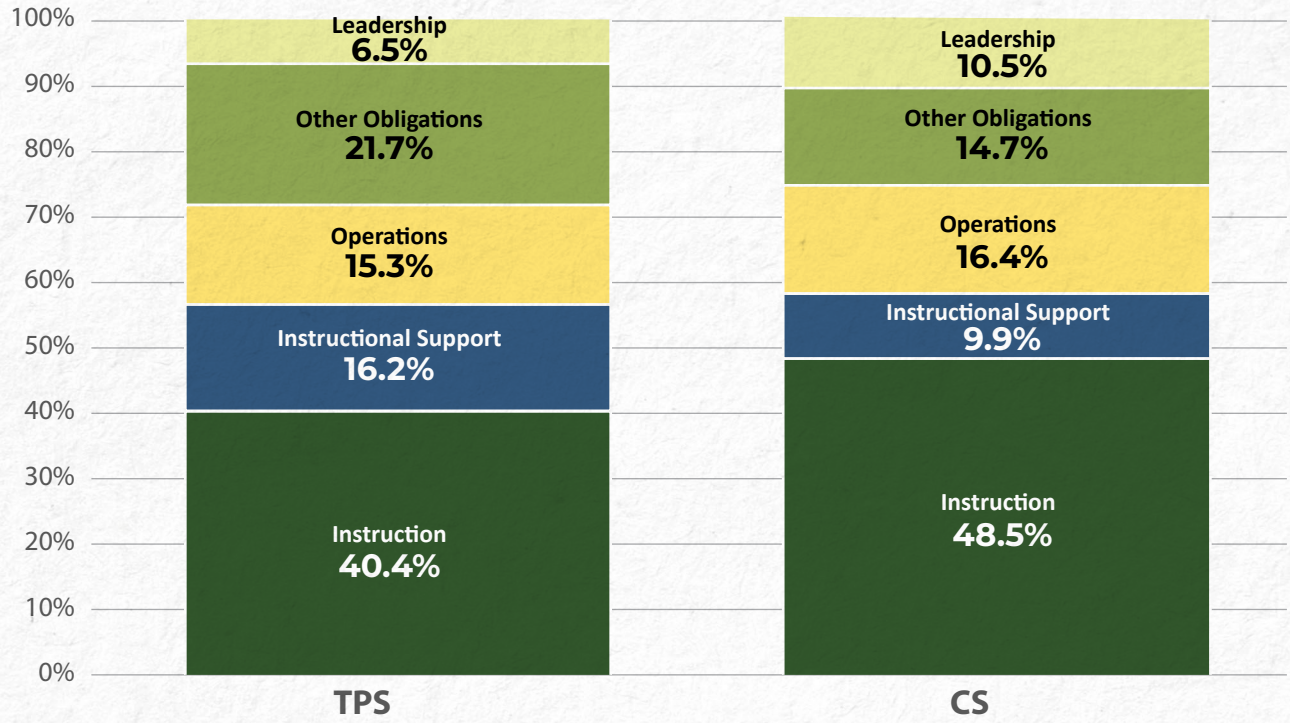


The lower revenues that public charter schools collected drove these gaps in spending when compared to TPS. Charter schools also chose to spend their more limited funds differently than TPS did. To drill down into how charter schools allocate expenditures, we analyze detailed expenditure records for districts. This analysis requires financial reports from the districts that classify most expenditures into identifiable categories. As with our revenue analysis, expenditure analysis of TPS in our 18 cities does not include any expenditures that benefit the charter school sector. Those expenditures that TPS made on behalf of the charter schools are included in the charter school totals.

Figure 10 displays expenditures by category for TPS and charter schools in the 15 cities with sufficiently detailed data. Charter schools spent a greater percentage of resources on Instruction and Leadership than TPS. Charter schools expended 48.5 percent of their funding on Instruction compared to 40.4 percent in TPS. Charters spent 10.5 percent of their dollars on Leadership compared to 6.5 percent for TPS. Charter schools spent a smaller fraction of their spending on Instructional Support than TPS, 9.9 percent compared to 16.2 percent. If we combine Instruction and Instructional Support, charter schools still spent a greater proportion of expenditures combined on these categories, 58.4 percent in charters compared to 56.6 percent in TPS. Charter schools, working with less funding per pupil, expended larger proportions of their funding directly on educating students.

Charter schools, working with less funding per pupil, expended larger proportions of their funding directly on educating students.

Figure 10: Percentage of Expenditures by 5 Functions for Charters & TPS, 15 Cities in FY2018



Note: Sample excludes Chicago, New Orleans, Phoenix.

Classifying School Expenditures

Expenditures are classified into five functional categories: Instruction, Instructional Support, Operations, Leadership, and Other Obligations:

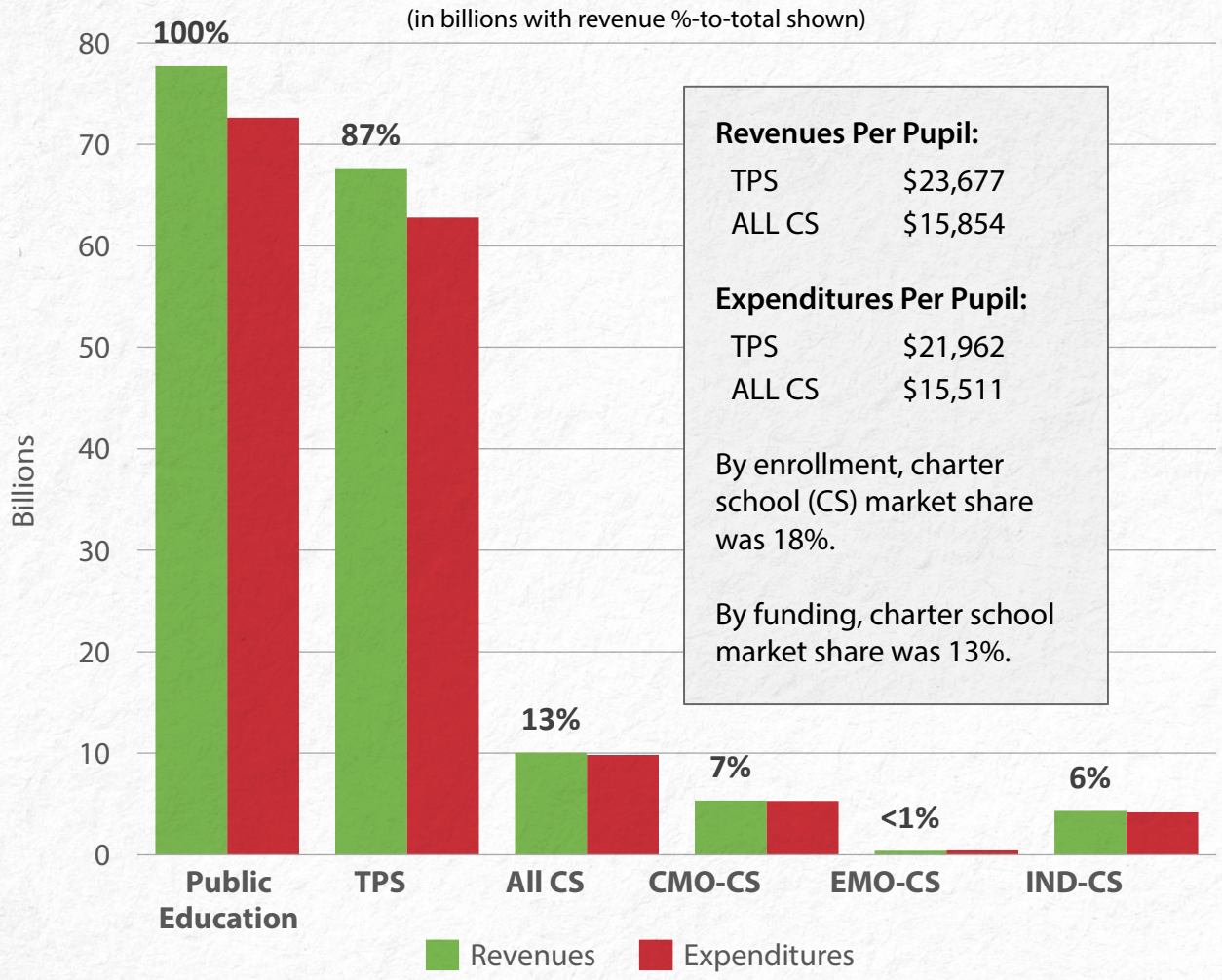
- *Instruction* includes spending on teachers, paraprofessionals, substitutes, non-employee instructional spending, and instructional computers.
- *Instructional Support* includes spending on library, guidance, extracurricular, student health, curriculum development, professional development, program management, as well as therapists and similar professionals.
- *Operations* includes spending on pupil transportation, food service, safety, operations & maintenance, business operations, and data processing.
- *Leadership* includes spending on principals, school offices, deputies, superintendents, school boards, and legal costs.
- *Other Obligations* includes debt services, capital projects, pass-throughs, retiree benefits, enterprise/ community services, depreciation, claims & settlements, and other.

Expenditures that cannot be classified into one of these five categories are referred to as "Unknown." We classify an expenditure as Unknown when the expenditure detail that the state or an audit document provided lacks sufficient information to determine where to assign the expenditure within the five functional categories:

- Where Unknown expenditures are 25 percent or greater for TPS, charter schools, or both, we exclude the city from the analysis so as not to skew the data.
- Chicago, New Orleans, and Phoenix are excluded from this part of the expenditure analysis for that reason.
- Therefore, the expenditure analysis by function focuses on the 15 cities with sufficient data to categorize at least three-quarters of their total spending.
- When expenditures with an Unknown function are less than 25 percent of total expenditures, we allocate the unknown function expenditures across the five functional categories, a process known as "deductive imputation" of missing data.
- For example, if 10 percent of known funding is allocated to Leadership, we allocate 10 percent of Unknown funding to Leadership.

Do EMO charter schools spend less on instruction? First, recall that half of the 18 metropolitan areas had no EMO-managed charter schools. Even in those metropolitan areas with EMOs, they were a small fraction of the charter school sector. Figure 11 displays the fraction of total public school revenues and expenditures allocated to each type of public school. EMO charter schools received 0.53 percent of all public school revenues in these 18 cities.

Figure 11: Revenues and Expenditures for Public Education by Organization Type for All 18 Cities, FY2018 (in billions with revenue %-to-total shown)

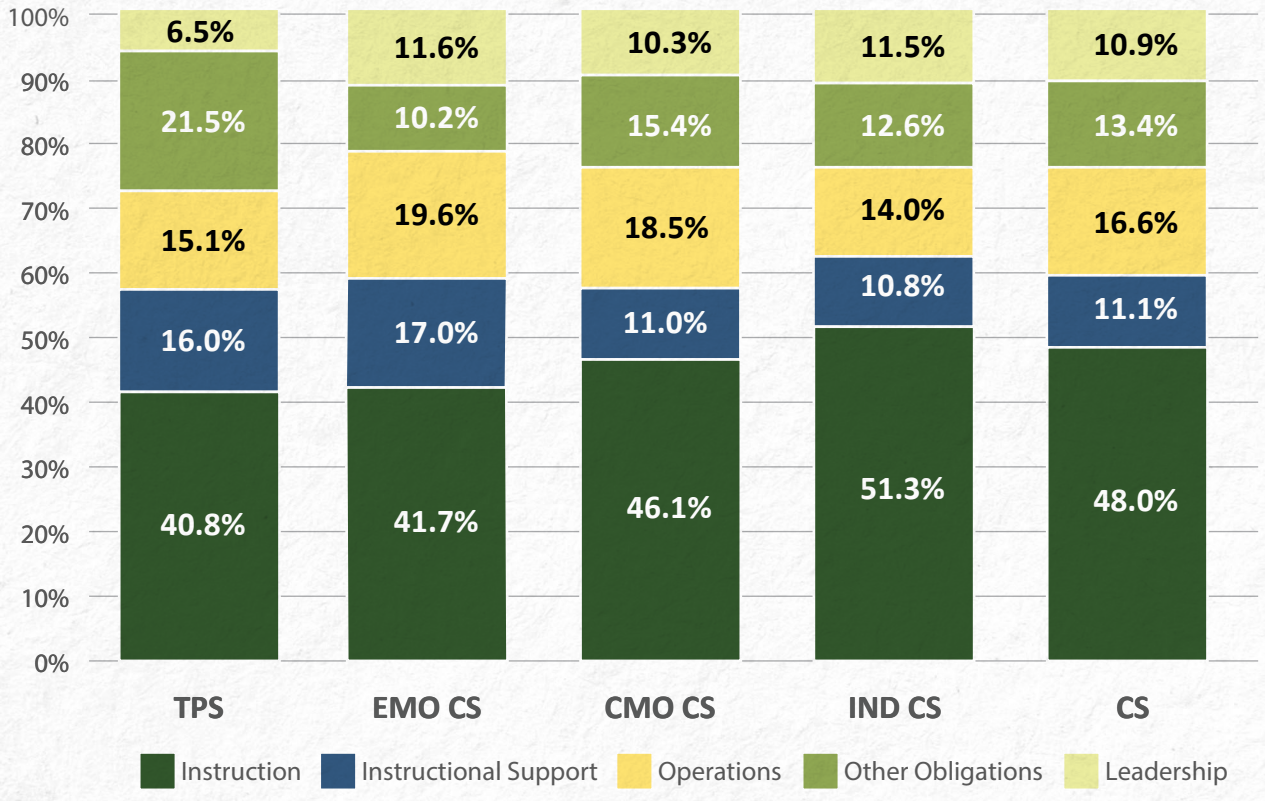


We then consider whether EMO charter schools, which have for-profit legal status, expended funds differently than non-profit charters and TPS in FY2018. We drill down into the expenditure data for each city and sector except for the three cities with more than 25 percent of expenditures associated with an Unknown function: Chicago, New Orleans, and Phoenix. As we disaggregate the data to specific charter types within metropolitan areas, three more cities had at least one charter type for which more than 25% of the expenditures are Unknown. Thus, we add Memphis, Oakland, and

Washington, D.C., to the previous three excluded cities for this specific analysis. Figure 12 uses data from the remaining 12 of the 18 cities.

Figure 12 breaks out expenditures for these five functions for each type of public school. The pattern of results is similar. TPS spent a smaller proportion on Instruction, 40.8 percent, than did all charter schools (48.0 percent). The average percent spent on Instruction was higher for each type of charter school compared to TPS. However, the percent of expenditures spent on Instruction differed by charter school management. EMO's look the most like TPS with 41.7 percent spent on Instruction; CMOs spent 46.1 percent; independent charter schools spent 51.3 percent.

Figure 12: Percentage of Expenditures by 5 Functions for TPS & Charters by Management Type, 12 Cities in FY2018



Note: Sample excludes Chicago, Memphis, New Orleans, Oakland, Phoenix, and Washington, D.C.

Instructional support expenses include such items as library expenditures, curriculum development, and guidance. If we add Instructional Support expenses to Instruction, charter schools expended 59.1 percent of funding towards these two categories and TPS expended 56.8 percent. The sum of these two categories was larger for EMOs and Independent charter schools than for TPS; CMOs were similar with 57.1 percent. Neither for-profit nor non-profit charter schools appeared to direct spending away from students. If anything, charters of all management types devoted the same or

greater proportions of spending towards Instruction than TPS did.

Charter schools did spend a larger proportion of their expenditures on Leadership. Charter schools must compete for school leadership talent in the broader education market and offer competitive salaries. The smaller scale of charter schools may contribute to this larger percentage of expenditure, as charter school leaders are required to be "hands on" regarding more aspects of their organization than leaders of TPS. Competitive leadership pay necessarily translates to larger proportions of spending. Still, charter school principals earn less than TPS principals, on average.[28]

Charters of all management types devoted the same or greater proportions of spending towards Instruction than TPS did.

One motivation for state charter school laws is for public schools to investigate new and different methods of educating public school students. Spending in charter schools accurately reflects those differences: charter schools devoted greater proportions of their spending to Instruction and to Leadership, both of which can be instruments for innovation.

Myth 3: Charter schools receive more nonpublic funding per pupil than TPS do and so are not reliant on public funding the same way TPS are.

This claim is false. Critics of public charter schools often claim that all charters receive large amounts of nonpublic funding, especially charitable contributions from "billionaires."[29] These critics imply that any gap in the public funding of charters is more than made up for by a supposed charter school advantage in nonpublic funding. The FY2018 data across 17 of the 18 cities demonstrate decisively that these claims about charters and nonpublic funding are myths.

Public schools of all types have long received revenue from nonpublic sources.[30] The public charter school sector received only a small amount of funding from nonpublic sources, including philanthropy. Thirty-seven percent of charter schools in our study received no dollars from philanthropic sources in FY2018. The charters in 11 of the cities received less nonpublic funding per pupil than did their area TPS. Far from alleviating the yawning gap in the funding of charters relative to TPS, nonpublic revenues worsened that gap in FY2018.

Public schools of all types have long received revenue from nonpublic sources.

Public charter schools cannot depend on philanthropy to produce funding equity. If all public school students are to be funded equitably, regardless of the type of public school they attend, states will need to change their school funding laws to tie more public funding to the students who funding is supposed to support.

Public charter schools cannot depend on philanthropy to produce funding equity.

Nonpublic Funding of Public Schools

Nonpublic school revenue comes from multiple sources, mainly: Program and Transportation Fees, Enterprise Income, Investment Income, and Philanthropy.

- *Program Fees* are the amounts charged to public school students to participate in school activities, including science lab fees, transportation fees, and extracurricular activities such as sports or band.
- *Enterprise Income* is dollars earned through business-like activities such as rental of school facilities, food service, ticket sales for sports and music events, and the sale of school-themed merchandise.
- *Investment Income* is earned because public school districts and charter schools often receive revenue long before bills are due and most school districts are allowed to carry-over unspent funds from one year to the next. In both cases, investing the surplus dollars earns investment income.
- *Philanthropy* consists of the funds donated to public school districts and public charter schools. We focus especially on philanthropy when examining charter school funding myths, since it is the element of nonpublic education funding that draws the most attention from charter school critics.

In the databases and documents we used to collect the comprehensive school funding data for this study, almost all the revenue items are clearly labeled as coming from public or nonpublic sources.[37]

- For 1.9 percent of TPS and 3.4 percent of charter school funding, our sources indicate that the dollars were received but do not specify the source or even whether they are public or nonpublic dollars. We classify those revenues as "indeterminate." They remain in our funding totals for TPS and charters but do not inform our percentages or breakouts by funding source.
- The sources for our New Orleans data are insufficiently detailed to permit us to separate much of the school revenue definitively into public and nonpublic source categories, leading us to exclude the Crescent City from our nonpublic revenue analysis here.
- In some cases, the source data details the specific type of nonpublic revenue; in other cases this level of detail is absent. We can disaggregate nonpublic revenues into one of the four specific types for half of the nonpublic revenue that the public charter schools received and 45 percent of the nonpublic revenue that the TPS received.

Table 1 summarizes the nonpublic revenues for TPS and public charter schools in FY2018. On average, TPS received more than twice as much — $2,634 compared to $1,135 — nonpublic revenue than did public charter schools. TPS charged much higher Program and Transportation Fees — $950 per pupil — than did public charter schools, which only charged $69 per pupil in Program Fees. Students were more likely to have to "pay to play" in TPS than in charters. TPS also brought in almost twice as much in Enterprise Income than charters, earning $113 per pupil in TPS compared to $72 per pupil in charters. The TPS in our study earned an average of $53 per student on investments compared to just $40 in Investment Income per student in the charters. Contrary to the claims of many defenders of TPS,[31] public school districts operate like profit-making businesses when they generate both Enterprise Income and Investment Income.

In contrast, the public charter schools in our cities received an average of $385 per pupil in Philanthropy, nearly five times more than the $63 average for the TPS. We discuss the distribution of those Philanthropy dollars across the 17 cities and individual charters later in this report.

Table 1: Nonpublic Funding Distribution by Sector in 17 Cities, FY2018

Source	Per Student Nonpublic Revenue (TPS)	Per Student Nonpublic Revenue (Charter)	Disparity ($)	Disparity %	Portion of Nonpublic Revenue (TPS)	Portion of Nonpublic Revenue (Charter)
Program Fees	$ 950	$ 69	$ (881)	-92.7%	36.1%	6.1%
Enterprise/Other	$ 113	$ 72	$ (41)	-36.3%	4.3%	6.3%
Investment Income	$ 53	$ 40	$ (13)	-24.5%	2.0%	3.5%
Philanthropy	$ 63	$ 385	$ 322	511.1%	2.4%	34.0%
Miscellaneous Other	$ 1,455	$ 568	$ (887)	-61.0%	55.2%	50.1%
Total	**$ 2,634**	**$ 1,134**	**$ (1,500)**	**-56.9%**	**100.0%**	**100.0%**

Note: Sample excludes New Orleans.

Enterprise Income itself can be broken down into its constituent parts (Table 2). While most public schools receive federal funds to provide free or reduced-priced lunch to their low-income students, they also tend to receive food service revenue from fee-paying students and adults. The TPS in our study received an average of $70 per pupil in nonpublic food service revenue, nearly double the $37 per-pupil average for the charters in our study. Public school districts also are landlords and earned an average of $23 per pupil by renting out public school facilities to members of the community. Charters averaged less in facilities' rental income, at $19 per pupil, than TPS did. Charter schools often are characterized as "private" schools by their opponents, implying falsely that students need to pay tuition to attend them.[32] TPS, however, collected more revenue from charging tuition to students enrolled from outside their geographic boundaries than did charter schools, an average of $18 per pupil for TPS but only $11 per pupil for charters.

Table 2: Nonpublic Enterprise Funding Distribution by Sector in 17 Cities, FY2018

Source	Per Student Revenue (TPS)	Per Student Revenue (Charter)	Disparity ($)	Disparity (%)
Nonpublic Food Service	$70	$37	($33)	-47.1%
Facilities Rental	$23	$19	($4)	-17.4%
Nonpublic Tuition	$18	$11	($7)	-38.9%
Other Enterprise	$2	$5	$3	150.0%
Total	**$113**	**$72**	**($41)**	**-36.3%**

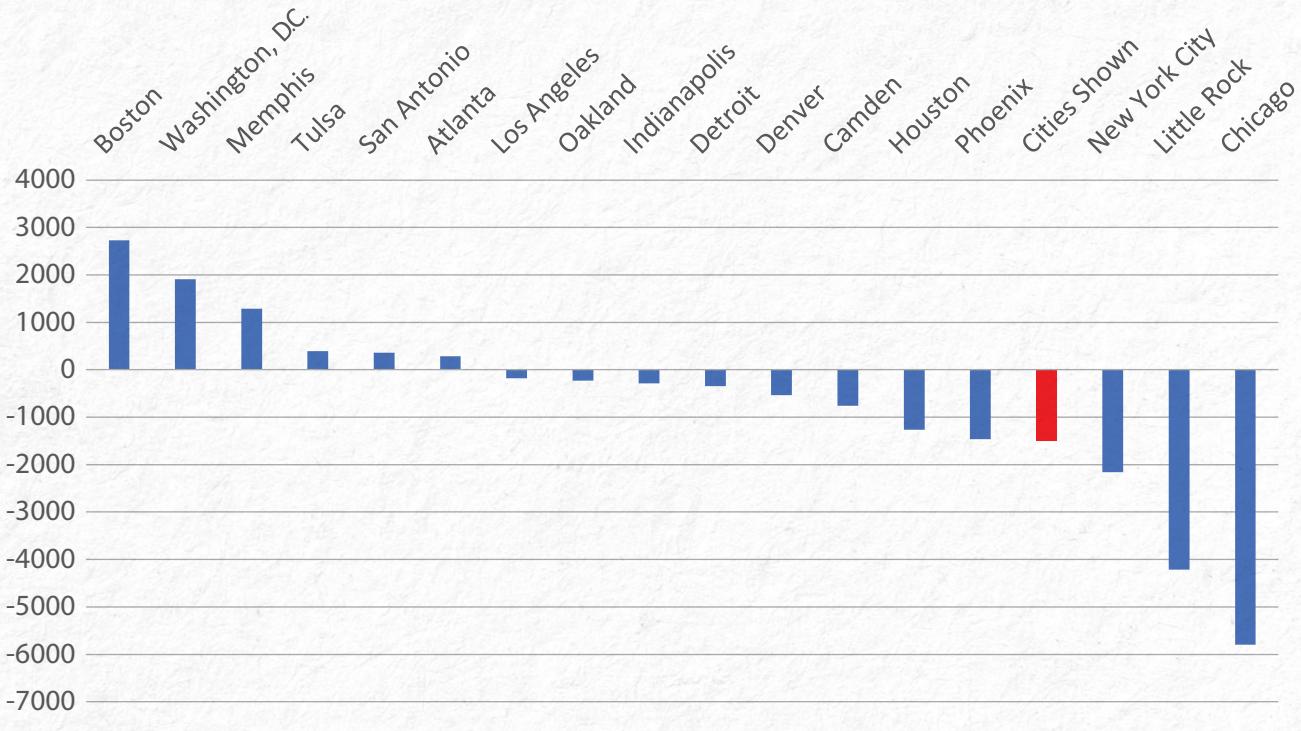
Note: Sample excludes New Orleans.

Total Nonpublic Revenue by Sector and City

The discrepancy in nonpublic revenue from all sources across the TPS and charter sectors varied dramatically by city (Figure 13). In six of the 17 cities in the analysis, public charter schools received more nonpublic revenue per pupil than TPS. Boston charters received the most nonpublic funding per pupil in any of our cities — $3,554 — which is more than four times greater than the $821 average for their TPS. Charters in the nation's capital received an average of $2,115 per pupil, 943 percent more than the average of $203 for their TPS. Memphis charters took in $1,530 in nonpublic revenue per pupil, more than five times the $240 per pupil average of their TPS. In Tulsa, San Antonio, and Atlanta, charters also received more nonpublic revenue per pupil than TPS, but the differences averaged less than $400 per pupil in each of those cities.

For 11 of these 17 cities, however, TPS earned more nonpublic revenue per pupil than charters did. Charters in Chicago faced the largest deficit in nonpublic funding relative to their TPS, receiving an average of $5,781 less per pupil in nonpublic revenue than the TPS in the Windy City. In Little Rock, public charter schools received $531 in nonpublic revenue per pupil, nearly 90 percent less than the $4,734 in per-

Figure 13: Total Nonpublic Revenue Disparity Per Student, Charter - TPS, FY2018



Note: Sample excludes New Orleans.

pupil nonpublic revenue that TPS earned in that city. In New York City, charters received an average of $2,158 less in per-pupil nonpublic revenue than did the TPS in the Big Apple. In Camden, Phoenix, and Houston, public charter schools received less than half of the per-pupil nonpublic revenue as their TPS received. The weighted average for our sample of 17 cities was $2,634 per pupil in nonpublic revenue in TPS and $1,135 in public charter schools, a nonpublic charter school funding gap of 57 percent.

The TPS in the 17 cities varied much more widely than the public charter school sectors regarding the extent to which they relied on nonpublic revenue to fund their schools (Table 3). The TPS in Chicago received 27 percent of their total funding from nonpublic sources, leading the pack in that category. The Little Rock TPS had the second-highest reliance on nonpublic funding, as they received 24 percent of their education dollars from nonpublic sources. One out of every five dollars that the Phoenix TPS received was nonpublic. In contrast, the TPS in Washington, D.C., and Atlanta, relied on nonpublic funding for only 1 percent of their total education funding.

Charter sectors also varied in their reliance on nonpublic funding across the cities, but not as widely as the variation in nonpublic revenue reliance by TPS. Eight of the 17 cities had charter sectors that relied on nonpublic funding for 10 percent or more of their education dollars. The charter school sector in Boston led the pack with 15 percent of its total revenue coming from nonpublic sources. The Tulsa charter sector was next with 14 percent reliance on nonpublic revenue, followed by Memphis and Chicago charters at 12 percent. Camden charter schools demonstrated the lowest reliance on nonpublic revenue, as only 2 percent of their total dollars came from nonpublic sources, followed closely by New York City charter schools at 3 percent. The average reliance on nonpublic funding across the 17 cities, weighted by student enrollments, was 11 percent for the TPS but only 7 percent for charters.

The average reliance on nonpublic funding across the 17 cities was 11 percent for the TPS but only 7 percent for charters.

Table 3: Nonpublic Share of Total Revenues by Sector in 17 Cities, FY2018

Metro Area	State	District Per Student Revenue (Nonpublic)	District Per Student Revenue (Total)	District Nonpublic Percent of Total	Charter Per Student Revenue (Nonpublic)	Charter Per Student Revenue (Total)	Charter Nonpublic Percent of Total
Boston	MA	$821	$25,628	3%	$3,554	$23,930	15%
Tulsa	OK	$671	$12,949	5%	$1,062	$7,686	14%
Memphis	TN	$240	$12,842	2%	$1,530	$12,058	12%
Chicago	IL	$7,461	$27,859	27%	$1,680	$14,477	12%
San Antonio	TX	$844	$13,830	6%	$1,207	$11,818	10%
Phoenix	AZ	$2,370	$11,824	20%	$909	$9,063	10%
Detroit	MI	$1,445	$15,539	9%	$1,100	$10,967	10%
Indianapolis	IN	$1,177	$16,230	7%	$891	$9,299	10%
Oakland	CA	$1,427	$19,108	7%	$1,199	$13,130	9%
Denver	CO	$1,765	$20,827	8%	$1,227	$13,433	9%
Washington, D.C.	DC	$203	$36,266	1%	$2,115	$24,896	8%
Houston	TX	$2,130	$13,341	16%	$865	$11,886	7%
Little Rock	AR	$4,734	$19,773	24%	$531	$8,309	6%
Los Angeles	CA	$960	$20,783	5%	$777	$13,488	6%
Atlanta	GA	$255	$20,861	1%	$538	$10,020	5%
New York City	NY	$3,050	$32,420	9%	$892	$26,242	3%
Camden	NJ	$1,109	$35,216	3%	$351	$18,899	2%
Weighted Average		**$2,634**	**$23,682**	**11%**	**$1,135**	**$16,121**	**7%**

Philanthropy in the Charter and TPS Sectors

Some of the criticism regarding charter schools and nonpublic funding specifically focuses on philanthropy. Charitable donations are the only major type of nonpublic revenue for which the charter sectors in our study received more funding per pupil than the TPS sectors. Data for this section require comparing philanthropic donations directed to TPS with those directed to public charter schools. We exclude Los Angeles, New Orleans, and Oakland from this section's analysis because the data sources for the TPS and public charter schools in those cities lack the details needed to separate philanthropic dollars from other types of nonpublic revenue. Overall, the charters in the remaining 15 cities received $496 per pupil in charitable dollars, more than six times as much as the $78 per pupil in philanthropic funds that the TPS received (Table 4).

Charitable foundations tend to direct their dollars to school districts or charter sectors that have strong reputations or are implementing policies that the foundations support. Philanthropies like to pick winners. We see such

Table 4: Reported Philanthropy Revenue Disparity Per Student in 15 Cities, FY2018

Metro Area	State	District Per Student Revenue	Charter Per Student Revenue	Disparity Per Student ($)	Disparity Per Student (%)
Camden	NJ	$ -	$23	$23	
Houston	TX	$ -	$596	$596	
Memphis	TN	$ -	$641	$641	
Chicago	IL	$ -	$770	$770	
San Antonio	TX	$ -	$803	$803	
New York City	NY	$143	$217	$74	52%
Phoenix	AZ	$28	$86	$58	207%
Tulsa	OK	$282	$892	$610	216%
Little Rock	AR	$82	$358	$276	336%
Atlanta	GA	$50	$223	$173	342%
Denver	CO	$130	$942	$811	623%
Boston	MA	$69	$2,472	$2,403	623%
Washington, D.C.	DC	$72	$691	$618	857%
Indianapolis	IN	$39	$405	$366	942%
Detroit	MI	$8	$107	$99	1272%
Weighted Average		**$78**	**$496**	**$418**	**540%**

Note: Disparity Per Student ($) is the Charter Per Student Revenue minus the District Per Student Revenue, so negative values indicate a charter school funding disadvantage. Disparity Per Student (%) is the dollar disparity divided by District Per Student Revenue. Sample excludes Los Angeles, New Orleans, and Oakland.

a pattern in our data. Boston charter schools received an average of $2,472 per pupil in charitable dollars, by far the most in our sample. Boston charters are known to generate large test-score gains for students, especially students from disadvantaged backgrounds.[33] Denver charters received $942 per pupil in philanthropic funds, followed closely by Tulsa charters at $892 per pupil and San Antonio charters at $803 per pupil. In contrast, Phoenix charter schools received only $86 per pupil and Camden charter schools $23 per pupil in charitable dollars.

Some public school districts in our study received substantial amounts of philanthropic revenue. The Tulsa public school district received $282 per pupil in charitable dollars. The New York City TPS received $143 per pupil from philanthropies. Denver public schools received $130 per pupil in charitable dollars. Still, five of the 15 TPS in our study received no philanthropic revenue. In every city where public schools received support from charitable foundations, their public charter school sectors received more philanthropic funds than did their TPS.

Although the public charter schools in this study tended to receive more nonpublic funds in the form of philanthropy than their respective TPS, those charitable dollars represented a small

In every city where public schools received support from charitable foundations, their public charter school sectors received more philanthropic funds than did their TPS.

portion of their total funding. For the 15 cities with data, philanthropy distributions constituted an average of less than 3 percent of per pupil revenues in charters. In Camden, New York City, Phoenix, and Detroit, philanthropy was less than 1 percent of charter school revenues. Charter schools in Tulsa and Boston, in contrast, received 11.6 and 10.3 percent of revenues via Philanthropy.

Philanthropy distributions constituted an average of less than 3 percent of per pupil revenues in charters.

The Distribution of Philanthropy to Public Charter Schools

Not only is philanthropy a small portion of the total funding that public charter schools received, but it was also distributed in a highly skewed fashion (Table 5). The top tercile, or one-third, of individual public charter schools in our study that received the most charitable dollars garnered over 95 percent of the total charter school philanthropy accounted for in our study. The middle tercile of public charter schools received 5 percent of the charitable dollars that went to charters. The one-third of public charter schools that received the least amount of philanthropy accounted for -0.6 percent of the total. The reason is that some public charter schools in New York City owed money back to foundations which supported them, generating a negative revenue flow for nonpublic philanthropic dollars.

Higher student enrollments in the public charter schools that receive more philanthropy did not skew this distribution of charitable dollars. Charter schools in the top tercile of philanthropy revenue enrolled about 34 percent of all charter school students in our study. Charters in the middle tercile enrolled slightly more than 34 percent of the charter population. The lower tercile charter schools receiving charitable donations enrolled the remaining 32 percent of charter school students in our sample. Students were distributed evenly across the three clusters of public charter schools. Philanthropic dollars, on the other hand, were concentrated almost exclusively among one-third of the charter schools that were especially popular with education foundations. Charitable dollars were too few and concentrated among too small of a minority of public charter schools to deliver equity in the funding of public schools.

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Table 5: Charter School Philanthropy for the Top Tercile in 15 Cities, FY2018

City	State	Top Tercile Funding (%)	Top Tercile Enrollment (%)	Funding Per Pupil (Top)	Middle Tercile Funding (%)	Middle Tercile Enrollment (%)	Funding Per Pupil (Middle)	Bottom Tercile Funding (%)	Bottom Tercile Enrollment (%)	Funding Per Pupil (Bottom)
New York	NY	9.6%	3.0%	$1,608	1.6%	12.6%	$64	-0.6%	8.7%	$(35)
Chicago	IL	19.2%	7.2%	$1,325	0.7%	3.8%	$97	0.0%	2.0%	$0
Washington	DC	12.4%	5.9%	$1,045	0.6%	2.9%	$104	0.0%	1.2%	$0
Houston	TX	9.4%	4.5%	$1,032	0.1%	0.9%	$66	0.0%	2.5%	$0
Detroit	MI	1.3%	0.7%	$944	0.4%	3.1%	$65	0.0%	4.0%	$0
Phoenix	AZ	1.1%	0.6%	$1,010	0.1%	2.2%	$19	0.0%	4.2%	$0
Indianapolis	IN	4.5%	1.0%	$2,309	0.4%	3.0%	$64	0.0%	2.0%	$0
Atlanta	GA	2.4%	1.6%	$766	0.2%	0.6%	$207	0.0%	3.8%	$0
Memphis	TN	6.3%	1.9%	$1,624	0.3%	1.6%	$86	0.0%	1.6%	$0
Denver	CO	8.3%	3.5%	$1,188	0.3%	0.8%	$160	0.0%	0.3%	$0
Boston	MA	15.0%	2.0%	$3,656	0.1%	0.9%	$70	0.0%	0.1%	$0
San Antonio	TX	3.6%	1.6%	$1,137	0.0%	0.2%	$24	0.0%	0.5%	$0
Camden	NJ	0.0%	0.0%	-	0.1%	0.6%	$73	0.0%	1.3%	$0
Little Rock	AR	1.0%	0.5%	$955	0.0%	0.9%	$15	0.0%	0.0%	$0
Tulsa	OK	1.5%	0.4%	$1,770	0.0%	0.2%	$71	0.0%	0.3%	$0
Tercile Total		**95.6%**	**34.2%**	**$1,386**	**5.0%**	**34.2%**	**$73**	**-0.6%**	**31.5%**	**$(10)**

Note: Sample excludes Los Angeles, New Orleans, and Oakland.

Conclusion

This fourth study of funding inequities focuses on traditional public schools (TPS) and public charter schools in 18 cities. The first study concluded that public charter schools are receiving a shrinking portion of the per-pupil funding that TPS received.[34] The second one established that urban charter schools continue to operate more productively than their TPS counterparts.[35] How special education services are funded and delivered in public charter schools was the focus of the third study.[36] To inform all of these studies, we analyzed financial documents detailing revenues and expenditures for TPS and public charter schools in the 18-city sample for FY2018, which aligns with the 2017-18 school year.

U.S. House Resolution 4502 (H.R. 4502) proposes to remove federal funding from public charter schools, perhaps specifically those managed by for-profit companies called education management organizations (EMOs). Charter schools already receive roughly one-third less in revenues per pupil than the TPS in their metropolitan area. H.R. 4502 would widen these revenue gaps that students educated in public charter schools faced by an average of 7 percent.

Perhaps supporters of these cuts believe common myths about charter schools. We dispel these myths in this report. We demonstrate that in FY2018, EMOs were a small fraction of the charter school sector, although the charter market share of EMOs varied widely by city. EMOs faced larger revenue gaps than did other types of charters, receiving, on average 52.4 percent less funding than their city's TPS. Furthermore, EMOs served low-income students at a higher rate than any other type of public school, including TPS.

Charter school operators did not divert funds away from students. Charters spent larger proportions of their budgets on Instruction than TPS did. This finding was true for EMOs, as well as charter schools with non-profit management (CMOs) and independent management. Neither did philanthropy compensate for these funding gaps. Both TPS and public charter schools received nonpublic revenues. In our sample, TPS received more than twice as much nonpublic revenue as charters. Although charter schools received, on average, more charitable donations than did TPS, almost all of these donations were directed towards a limited number of cities and charter schools. Charter schools cannot reasonably rely on charity or other nonpublic funds to make up for their significant revenue gaps.

In sum, the funding of public school students is inequitable in that similar students in TPS receive more education dollars than their peers in public charter schools. Initiatives such as H.R. 4502 that seek to deny taxpayer funds to specific types of public schools would worsen these inequities and disproportionately harm low-income students in such schools. Instead, public school funding laws should be overhauled so that more dollars are tied to individual student needs and fewer dollars are based on the type of public school which a student attends.

EMOs served low-income students at a higher rate than any other type of public school, including TPS.

Charter schools cannot reasonably rely on charity or other nonpublic funds to make up for their significant revenue gaps.

Public school funding laws should be overhauled so that more dollars are tied to individual student needs and fewer dollars are based on the type of public school which a student attends.

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