

# NEPC REVIEW: CHARTER SCHOOL FUNDING: INEQUITY IN NEW YORK CITY (UNIVERSITY OF ARKANSAS, AUGUST 2017)



**Reviewer:**

Clive Belfield

Queens College, City University of New York

October 2017

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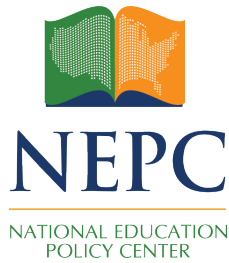
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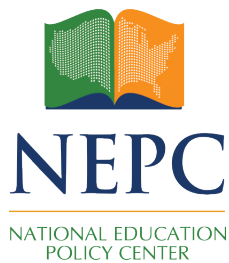
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## Summary of Review

A new report by researchers at the University of Arkansas concludes that charter schools in New York City are not fairly funded, in comparison to district schools. The report asserts that this inequity is especially big for charter schools that are not co-located in public schools. The report also describes expenditure patterns across schools, which show no clear differences between charter schools and district schools. This review of the report raises several concerns. Perhaps most importantly, the report simply does not attempt a rigorous comparison across schools. It assumes that any differences in student characteristics across charter and district schools are trivial. It therefore concludes that raw, unadjusted funding amounts are sufficient for assessing fairness. It does not undertake any sensitivity testing to identify the precision of its estimates. It does not investigate in detail what the optimal amount of funding should be for charter schools that are not co-located in public school buildings. Finally, the report is based on data from 2014. Since that date, New York City has significantly reformed its funding regulations for charter schools; the report's estimates are therefore no longer policy-relevant.



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## I. Introduction

This review covers a report written by Maloney and Wolf from the University of Arkansas Department of Education Reform.<sup>1</sup> The report examines the funding and spending patterns of charter schools in New York City. School financing debates have long raged about whether charter schools get “too much” or “not enough” resources. By comparing charter schools with district schools, the report attempts to answer an important question – are charter schools in New York City funded fairly?

The report is essentially a factsheet that describes – but does not analyze – funding and spending. To begin, the report compares aggregate funding across all district schools and all charter schools in New York City. Then, it shows disaggregated comparisons across localities (boroughs) and across funding sources. In parallel fashion, the report compares aggregate spending across school types and then disaggregated patterns by locality and by expenditure category. As well, the report contrasts charter schools that are co-located within public school district buildings against charter schools that are not co-located (i.e., they have their own facilities).

The report – as given in its title – claims that there are inequities. Charter schools, especially if they are not located in public school buildings, are not getting enough resources. However, this claim is far from proven by the evidence presented in this report. Rather, it remains unclear whether there are inequities in funding between charter schools and district schools. Based on the report’s descriptive figures, there is a disparity between resources for charter schools and resources for district schools. But it is debatable whether this disparity is a genuine inequity. Also, without further analysis, the magnitude of the disparity cannot be precisely estimated. Moreover, the report’s estimates pre-date a significant change in the

rules that govern charter school funding. It is therefore unclear how salient this disparity is for education policy in New York City.

## **II. Findings and Conclusions of the Report**

The report presents a series of findings from descriptions of financing patterns within New York City's public schools in the fiscal year 2014.

The main finding is that charter schools are funded at lower levels than district schools. When all resources are counted, the disparity against charter schools is \$4,888 per pupil, which is 19% less than what district schools receive on average. Hence, the authors conclude that there is inequity in the funding of charter schools.

The report includes several other findings from the descriptive statistics with regard to funding. First, charter schools obtain less philanthropic funding than district schools. Second, charter schools receive substantial in-kind services from the district school system, and these offset the raw budget allocation disparity. Third, charter schools co-located in facilities with district schools receive significantly more per-pupil funding than do charter schools housed within their own facilities.

With regard to spending, there are few clear differences between charter and district schools. Typically, one predominant concern is how much spending actually goes into the classroom. The report finds that charter schools spend proportionately as much on instruction as district schools (at around 40% of total spending). Another concern is how much is spent on capital and facilities; here the report's findings are mixed as to whether charters spend more or less than district schools.

The report includes a substantial description of resource allocation patterns, spread over 34 Figures and Tables. These charts illustrate many disparate patterns of funding and spending across charter schools by locality and charter school type. However, the main substantive conclusion is that there is an overall disparity in funding that favors district schools.

The report does cover one novel finding in a footnote. Unidentified in standard audit documents, the City's charter schools received "pass-through" of \$186 million in 2014. Given there were 69,093 charter school students, this amounts to \$2,700 per student; a significant amount of resource that was not considered in previous reports on charter school funding.

## **III. The Report's Rationale for Its Findings and Conclusions**

The report uses simple descriptive statistics to support its claims of disparate funding but similar spending. These descriptive statistics are derived from the most detailed available data from the New York Department of Education and are for a single year (Fiscal Year 2014). It is presumed that these data are valid for describing funding and spending patterns.

The rationale for drawing conclusions about funding from these data is the idea of horizontal equity: if the schools are the same, they should receive the same amount of funding regardless of whether they are charter schools or district schools. When charter schools appear to receive less, the system is inequitable.

However, the claim that charter schools and district schools should be treated equally needs to be substantiated. The report claims that the two types of school are equivalent in terms of student disadvantage (finding that charter schools actually serve more disadvantaged students). The report also claims that differences in enrollments of students with special educational needs (i.e., there are fewer in charter schools) are irrelevant because they are trivial. *In toto*, the students in charter and district schools are considered to be sufficiently alike that no adjustments are needed before comparing funding allocations.

The rationale for drawing conclusions about spending from these data is not clearly explained. Presumably, one can learn about how schools are run by how they allocate resources. But it is impossible to tell which schools are run well just by looking at how they allocate resources. If there are contrasting spending patterns, charter schools might be allocating resources in ways that will yield *superior* outcomes; but it might be that they are misallocating resources in ways that will yield *inferior* outcomes. (Where spending patterns are the same, one might wonder why charter school policies are needed if these schools are just going to allocate resources in the same way as district schools). Some theory or statement is needed as to which allocations are optimal; otherwise, spending patterns are just distinctions without a difference.

Finally, the report relies exclusively on the descriptive statistics from the New York City administrative data records. Contextual information and evidence from other cost studies are not incorporated into the discussion of funding and spending patterns.

#### **IV. The Report's Use of Research Literature**

The report makes no reference to any relevant literature other than reports written by the authors themselves.<sup>2</sup>

The report does not consider the methods other scholars have used to compare spending patterns. Readers will have to determine for themselves whether the authors have applied the most valid method.

The report does not discuss evidence other scholars have produced – either contradictory or corroborating – on charter-district funding inequities across the U.S. This omission is unfortunate because there is now a long history of analyses, including ones directly on funding for facilities.<sup>3</sup> There is also some evidence that one of the report's findings – equivalent spending on instruction between district and charter schools – is not found elsewhere.<sup>4</sup> Readers must discover for themselves if these results are typical of charter school policies or if they are generalizable to any other public school system.



The report barely discusses the context and history of charter school funding in New York City. This neglect is particularly important. To the extent that city's public schooling has changed over time – for example, if student enrollment patterns have changed, or if funding formulae have been altered, or if charter school regulations have been reformed – then an annual snapshot of funding disparities will be misleading. The full, compounded inequity may be more (or less) than reported here. Readers will have to find out for themselves if there are any contextual factors that might affect the conclusions. In fact, as the authors concede (footnote 3, p.12), New York City recently amended its regulations with respect to charter school funding. No consideration is given as to how relevant this report is in light of these new regulations, which took effect after these data were produced.

Ironically, the literature mainly cited in this report – the authors' own – is probably inaccurate. Indeed, this inaccuracy in prior work on New York City is admitted by the authors themselves (footnote 1, p.7). With new, more detailed data in this report, the authors have discovered a substantial financial transfer (“pass-through”) from district schools to charter schools that was not considered beforehand. The implications of this discovery for prior reports are not discussed.

## **V. Review of the Report's Methods**

The method applied in this report is almost entirely descriptive. Using budgetary data from the New York City Department of Education, the authors report funding and spending amounts across charter schools and district schools and within the group of charter schools.

For comparisons of raw funding amounts, this method is appropriate if charter and district schools face similar economic conditions and educate students with similar characteristics. The report claims that there is such similarity and so there is no need to make adjustments for underlying differences. This claim is highly dubious.

The report does consider the extent of similarity in student characteristics between charter and district schools. But it does so inadequately and cursorily.

One key student characteristic is academic ability: students who are more academically capable require fewer resources than students who struggle academically. If charter schools select students (which some do), then they will be able to choose students who are cheaper to educate and so should have lower costs. When academically able students are disproportionately clustered in charter schools then comparisons of raw funding differences will be invalid. To capture differences in academic ability, the authors compare rates of free-and-reduced-price lunch (FRPL) enrollment across schools. Finding these rates to be higher in New York City's charter schools, the authors determine that there is no need to adjust for differences in students' characteristics. However, this is far from adequate: FRPL is not a measure of academic ability but only student poverty; and it is not even a very good proxy for student poverty.<sup>5</sup> It is very unlikely that the academic characteristics of students in charter schools and district schools are equivalent.

A second important student characteristic is special educational need. Students with special educational needs require substantially more resources than other students. In New York City, charter schools enroll students with special educational needs at rates lower than district schools. Cursorily, the report claims that this rate differential is too small to matter and so funding amounts need not be adjusted. Unfortunately, the calculations used to make this claim are incorrectly performed and rely on evidence that is incorrectly interpreted by the authors.<sup>6</sup> Although it is beyond the scope of this review to accurately calculate the influence of disproportionate special educational placement, that influence is certainly not zero.

Fundamentally, the report assumes that each of the students in charter schools should cost on average the same as each of the students in district schools. No adjustments for student characteristics or economic conditions are necessary. This assumption is made even when there is evidence of difference (in poverty, special educational need, or geographic location).

The report does not explain in detail three key numbers that affect the calculation of a funding disparity. One number is the newly reported “pass-through” of \$2,700 per student; it is not clear what this funding is for and why it is not readily identifiable as charter school funding. Another number is the value of in-kind services charter schools receive: these services (including transport, food, and special education services) are estimated at \$5,388 per student. However, the report does not explain how these services are priced out.<sup>7</sup> A third number is the amount of additional funding charter schools receive if they are not co-located in public schools. This facility payment amount of \$2,775 annually per-pupil is fixed by the New York State legislature. But there is no explanation for why it is set at that value. This omission is puzzling because one of the report’s main findings is that non-co-located charter schools are the schools with the greatest inequity in funding.

*When comparing spending patterns, the report fails to consider the limitations of its data.*

When comparing spending patterns, the report fails to consider the limitations of its data. Budgetary data are far from ideal for evaluating spending patterns. As discussed in detail in Levin *et al.* (2017), budgets are created to serve accounting purposes: how funds are actually spent may differ significantly from how they are reported in budgets.<sup>8</sup> Also, the data sources are not the same: data on district schools comes from ST-3 forms, whereas data for charter schools come from audits. The report does not discuss any discrepancies in charts of accounts between these sources. For example, the report focuses on differences in instructional spending, but schools may include different personnel in the category of instructional spending and a sizeable fraction of these personnel may work outside the classroom environment. Only through direct observation is it possible to ascertain whether schools are using the same classifications for each line item in their budgets. Such an inquiry is especially important in light of evidence about how some charter operators allocate resources in “extractive” ways.<sup>9</sup>

Finally, the report does not include any sensitivity tests of the funding gap between charter schools and district schools, i.e. how sensitive the estimated gap is to the assumptions the authors have made. The gap is estimated at \$4,888 per pupil but the report provides no indication as to how confident a reader should be of this estimate. For example, the pass-



through is estimated from one year of data at \$186 million; if this pass-through varies annually, the gap might increase (or decrease) by thousands of dollars per charter school student. Variation in the other two important numbers – in-kind services and facility payments – might also be tested. Finally, one very important sensitivity test relates to enrollment. Costs are reported per pupil; yet the report does not consider how per-pupil costs may vary if enrollment has been misestimated.

## **VI. Review of the Validity of the Findings and Conclusions**

The main conclusion of this report – that New York City’s charter schools receive fewer resources than district schools – is plausible. However, this conclusion is far from definite. The report estimates the disparity without adjusting for any differences in the characteristics of students in charter schools and district schools. As such, the reader must be very careful in interpreting this raw disparity in funding as unfair.

The report calculates that charter schools receive 19% less in resources than district schools. However, the report does not investigate the precision of this estimate. Given the newly discovered “pass-through” and the extensive in-kind services charter schools receive, the gap might be much bigger or smaller.

The report finds that charter schools that are not co-located receive significantly less funding. However, it is not obvious how much funding these schools should get. The authors assume the amount of funding should be the same as the district schools. But this assumption is questionable without a detailed investigation of how capital and facilities are being amortized by all schools.

Finally, the report presents information on spending patterns across schools. Leaving aside the lack of adjustment for student characteristics, it is difficult to know what to conclude from these patterns. First, the results are mixed. Second, if charter schools spend more on instruction than district schools, for example, we cannot conclude that the charter schools’ spending pattern is superior.

## **VII. Usefulness of the Report for Guidance of Policy and Practice**

This report is unlikely to be very useful for policymakers and for the research community.

The report might be expected to be most useful for policymakers in New York City. But, as noted above, New York City has recently changed its regulations with regard to overall parity in funding between charter and district schools and with regard to charter schools that are not co-located. In light of these reforms, this report has been superseded by events.

Potentially, policymakers in other cities may be interested in these findings. However, given the lack of detail on the funding context in New York City, as well as the absence of any corroborating evidence from other localities, these policymakers may be uncertain as to how relevant the results are for their circumstances.

Finally, a general audience may be interested in the two findings of disparities for non-co-located charters and for schools in certain geographical areas.

Unfortunately, neither of these findings is novel. Almost since their introduction, researchers have been concerned as to how much capital funding charter schools should receive.<sup>10</sup> A full investigation of any funding gap would need to account for the current state of district facilities, accounting practices for amortization, and the efficiency of the capital market (as well as all the implications of student characteristics). Similarly, researchers have been interested in where charter schools are located. One of the expected gains of having a charter school system is locational responsiveness: these schools can quickly set up where needed in a community. But it is the features of a location (rather than its name being Brooklyn or Queens) that are of interest; and there is already a full inquiry that accounts for both financing and accountability policies for New York State.<sup>11</sup>

Charter schools offer an important alternative to the regular public school system. And, in order for them to be a reasonable alternative, they need to be adequately and fairly funded. However, it is a difficult and complex task to determine what is adequate and what is fair. The report reviewed here offers only a basic presentation of how much funding charter schools receive in New York City and how these schools spend that money.

## Notes and References

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- 1 Maloney, L.D. & Wolf, P.J. (2017) *Charter School Funding: Inequity in New York City*. University of Arkansas, Department of Education Reform. Retrieved September 28, 2017, from <http://www.uaedreform.org/wp-content/uploads/charter-school-funding-inequity-in-new-york-city.pdf>
- 2 Of the nine citations, six are by these authors; two of the others are factual reports; and one is a research study.
- 3 For a study directly on New York, see Bifulco, R. and Reback, R. (2012). *Fiscal impacts of charter schools: Lessons from New York*. Working Paper, NCSPE, Teachers College, Columbia University. Retrieved September 29, 2017, from <http://ncspe.tc.columbia.edu/working-papers/OP213.pdf>. For California, see Taylor, M. (2012). *Comparing Funding for Charter Schools and their School District Peers*. Legislative Analyst's Office, California. Retrieved September 27, 2017, from <http://lao.ca.gov/reports/2012/edu/charter-schools/charter-schools-012612.pdf>. For a thorough analysis on facilities that is now almost 15 years old, see Ascher, C., Cole, C., Harris, J. & Echazarreta, J. (2004). *The Finance Gap: Charter Schools and their Facilities*. Monograph, New York University. Retrieved September 28, 2017, from <http://steinhardt.nyu.edu/scmsAdmin/uploads/001/117/FinanceGap.pdf>
- 4 For a study showing greater instructional spending in district schools, see Arsen, D. & Ni, Y. (2012). *Is Administration Leaner in Charter Schools? Resource Allocation in Charter and Traditional Public Schools*. Working Paper 201, National Center for the Study of Privatization in Education. Retrieved September 28, 2017, from <http://ncspe.tc.columbia.edu/working-papers/OP201.pdf>
- 5 Half of all students are eligible for FRPL even though the national poverty rate for children is 24%. Some schools enroll students in FRPL more diligently and the eligibility criteria have varied over time. For a discussion, see <https://nces.ed.gov/blogs/nces/post/free-or-reduced-price-lunch-a-proxy-for-poverty> (retrieved September 29, 2017).
- 6 The report evaluates the importance of special educational needs based on the *difference* in the number of these students in charter and district schools instead of the *total* number. Also, and more obviously, the report refers to estimates of special educational costs from the 1990s and does not adjust these costs for New York City inflation.
- 7 The correct economic approach is to price out in-kind services based on what it would cost a charter school if it had to buy these services in a private market.
- 8 Levin, H.M., McEwan, P.J., Belfield, C.R., Bowden, A.B., & Shand, R.D. (2017). *Economic Evaluation in Education: Cost-effectiveness and Benefit-cost Analysis* (3rd edition). Los Angeles, CA: SAGE Publications.
- 9 Baker, B. & Miron, G. (2015). *The Business of Charter Schooling: Understanding the Policies that Charter Operators Use for Financial Benefit*. Boulder, CO: National Education Policy Center. Retrieved September 28, 2017, from <http://nepc.colorado.edu/publication/charter-revenue>
- 10 See footnote 3 above and, from even earlier, see General Accounting Office. (2000). *Charter Schools: Limited Access to Facility Financing*. Washington, DC: United States General Accounting Office. Retrieved September 29, 2017, from <http://www.gao.gov/assets/240/230805.pdf>
- 11 Bifulco, R., & Buerger, C. (2015). The influence of finance and accountability policies on location of New York state charter schools. *Journal of Education Finance*, 40(3), 193-221. For a city-specific analysis, see Lubienski, C., & Lee, J. (2016). Competitive Incentives and the Education Market: How Charter Schools Define Themselves in Metropolitan Detroit. *Peabody Journal of Education*, 91, 64-80.