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ANDERSON ECONOMIC GROUP

The Public School Academy Funding Gap

Revenue disparities between "charter" schools and traditional public schools in Michigan

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Executive Summary

Article VIII of the Michigan Constitution requires the legislature to establish and fund a system of free primary and secondary schools. These public schools have traditionally operated under the control of local school districts, each of which is created by the state. However, since 1994, state law has allowed other public institutions, such as a university or a school district, to organize public school academies (PSAs). Such schools are commonly called "charter schools" because a public body "charters" them with a written document outlining their purpose, governance, and authority.

THE RELATIVE COSTS OF PUBLIC SCHOOL ACADEMIES TO STATE TAXPAYERS

Given the recent debate over the statutory limit on the number of public school academies, and the state's budget difficulties, taxpayers and policymakers should consider carefully the relative costs of educating a child in a public school academy and a traditional public school.

To assess these costs, we performed the following research:

- reviewed the laws that govern public schools, including traditional public schools and public school academies, in Michigan;
- reviewed the statutes that govern the funding of public schools in Michigan, and trends in school funding that have occurred since the passage of Proposal A in 1994; and
- completed three different analyses to assess the relative costs of educating a child in a PSA and a traditional public school. This was done by first examining the statutes themselves; then examining the foundation allowances of PSAs and the districts in which they are located (the "host districts"); and finally examining the total state and local revenue for PSAs and their host districts.

RESULTS OF OUR ANALYSES

Our analyses reveal the following:

1. A review of the statutes governing the funding of Michigan public schools indicates that PSAs are entitled by law to the same operational funding, or less, than the host school district. Furthermore, they receive no additional capital funding.

   This establishes that PSAs cost the taxpayers *less* than district schools, but does not show *how much* less. Therefore, we completed two additional analyses, using two separate data sources.
2. An analysis of operating funds and capital revenue indicates that PSAs receive more than $1036 per student *less*, on average, than the comparable district school. This difference is composed of differences in foundation allowances for operating purposes that average $356 per pupil, plus an average difference in capital revenue per pupil of $681. See Table 1 on page 2.

NOTE ON DATA AND METHODOLOGY

We note in our report a small number of issues with data reporting that make the comparisons between district schools and public school academies less than perfect. These include differences between enrollments in primary and secondary grades; the inclusion of some students from higher-spending districts than the host district; the inclusion of categorical funding in the total expenditure data; and the use of statewide figures for capital expenditures. None of these items appear to be of a magnitude large enough to undermine the central finding of our analysis. However, we urge the reader to review these issues, which are discussed in "Methodology And Data Notes" on page 16.

NOTE ON THE PURPOSES OF PUBLIC SCHOOL ACADEMIES

This report confirms that PSAs receive less taxpayer funding per pupil than traditional district schools, and therefore conserve taxpayer resources devoted to the public school system. However, the primary purpose for the establishment of PSAs was not to save money, but to encourage innovation, and provide alternatives to district schools that are providing a satisfactory education.

There have been a number of analyses of PSAs that focus primarily on governance, accountability, performance, and innovation. We cite the most relevant of these in "Review of Related Research" on page 19.

TABLE 1. Average State and Local Per Pupil Funding, 2003

	Public School Academies	Host School Districts	Difference
Foundation allowance for operating purposes, plus capital revenue	$6,932	$7,968	($1,036)

Source: Anderson Economic Group, LLC.

3. The disparity in operating funds alone ranges from zero in a number of districts, to $25 per pupil in Plymouth-Canton, to $2,001 in Ann Arbor, to a striking $3,802 in Southfield. These figures may underestimate somewhat the actual difference, because some PSA students are resident in nearby districts that spend more than the host school district.

   See Table 4, "Operational Funding for PSAs and Selected Host Districts, 2003," on page 14, and Figure 2, "Operational Funding for PSAs and Selected Host Districts, 2003," on page 15.

4. PSAs receive no capital funding, which averaged $681 per pupil in 2001, and accounts for the largest share of the disparity in funding between PSAs and traditional public schools. This has been the fastest growing category of school revenues since the passage of Proposal A in 1994, increasing by 148% between 1994 and 2001. (See "Change in Prices, Enrollment, and Taxpayer Funding since "Proposal A"" on page 9.) Our analysis of the difference in capital funding is also conservative, as we did not have data for 2002 and 2003 capital funding per pupil.

5. A separate analysis of the total revenues reported by schools indicates that PSAs receive about $815 *less* than their host public school districts. These data, however, include non-comparable revenue for categorical programs offered by both public school academies and traditional public schools, which introduces a bias of unknown direction into the comparison. We therefore place less weight on this comparison than the direct comparison of foundation allowances.

DATA APPENDIX

See the "Data Appendix:" at the end of the report, and available on our website, for a detailed compilation of the data used in this analysis, including historical enrollment, operating revenue, capital revenue, and prices; a breakdown by source of property tax revenue for public schools in 2001; per pupil foundation allowance data for PSAs and host school districts; and total revenue data. This data appendix may be printed separately, and will also be made available on the Anderson Economic Group web site.[1]

1. The AEG web site is at: http://www.andersoneconomicgroup.com.

Rationale for Public School Academies

Article VIII of the Michigan Constitution requires the legislature to establish and fund a system of free primary and secondary schools. These public schools have traditionally operated under the control of local school districts, each of which is created by the state. However, since 1994, state law has allowed other public institutions, such as a university or a school district, to organize public schools. Such schools are commonly called "charter schools" because a public body "charters" them with a written document outlining its purpose and authority.[2]

CHARTER SCHOOLS ARE PUBLIC SCHOOLS

Under Michigan law, public school academies *are* public schools. Section 501 of the Revised School Code states "A public school academy is a public school under section 2 of article VIII of the state constitution of 1963." Given this, PSAs are bound by the majority of statutory requirements placed on public school districts, including the requirements to provide a free education and the prohibition on discrimination in admission policies.[3]

ORIGINAL PURPOSES

The reasons behind establishing PSAs was originally described in Section 511 of the Revised School Code, which stated that PSAs could be established to:[4]

- Improve achievement for all pupils;
- Stimulate innovative teaching methods;
- Create new opportunities for teachers at innovatively designed schools;
- Achieve school accountability for pupil educational performance;
- Provide parents and pupils with greater choices; and

2. Public Act 362 of 1993 authorized Public School Academies as public schools under Article VIII section 2 of the Michigan Constitution. See Revised School Code, section 502 (MCL 380.502), which outlines the creation of public school academies, their organization and administration, their oversight, and other matters.
3. See section 504 of the Revised School Code. "A public school academy shall not charge tuition and shall not discriminate in its pupil admissions policies or practices on the basis of intellectual or athletic ability, measures of achievement or aptitude, status as a handicapped person, or any other basis that would be illegal if used by a school district."
4. Sections 511- 518 of the Revised School Code were repealed effective July 30, 1997 as a result of a clause in Act 416 of 1994 that provided for the repeal if a challenge to the constitutionality of PSAs was rejected. Subsequently, in Council of Organizations and Others for Education About Parochiaid, Inc., et al. v John Engler, 455 Mich 557 (1997), the Michigan Supreme Court held that 1993 PA 362, which added Part 6A--Public School Academies to the School Code of 1976, did not violate art 8, sec 2, or art 8, sec 3 of the Michigan Constitution of 1963. The Court further held that the repealer in 1994 PA 416 (MCL § 380.518) was valid and enforceable.
   Although the language of section 511 is no longer in the Code, it does provide a contemporaneous record of the intentions of the legislature in establishing public school academies.

- Determine whether state educational funds can be more effectively utilized by allocating funds directly to the school rather than through school district administration.

Thus, the original rationale for the establishment of public school academies in Michigan not only aimed to improve educational performance and stimulate innovation, but also included a recognition that educational funds might be better utilized by funding schools directly, rather than funding them through the administrative structure of a traditional school district.

CURRENT PURPOSES

As concern has grown about the performance of public schools, federal and state law governing public schools have changed, and economic and budget conditions have worsened, a number of new issues involving PSAs have been introduced.

Innovation. As originally intended, public school academies are viewed by many as a tool for bringing beneficial educational innovation to the state. Most PSAs provide smaller class sizes and fewer administrators, which is intended to allow for more innovative teaching techniques.[5] PSAs also provide a greater range of educational alternatives for students who may not thrive in a traditional school environment, or for those who are seeking a more targeted curriculum.

No Child Left Behind. PSAs also put Michigan ahead of many other states in terms of fulfilling the goals of the recently-passed federal law known as No Child Left Behind Act (NCLB). Under NCLB, parents of children in schools that fail to reach certain benchmarks of student performance and show Adequate Yearly Progress (AYP) must be given options for moving their children to better performing schools.[6] Public School Academies provide parents with an alternative to sending their children to a private school, or to another traditional public school that may be further from home.

Economic Conditions. Finally, economic and budget conditions have changed since the mid-1990's, when Proposal A was adopted and public school academies authorized. As recounted in "Funding Michigan's Public Schools" on page 6, funding for public schools has increased dramatically since then, largely during a period of rapid economic growth. However, the recent economic recession, and the state's current budget difficulties, presage an era in which continued rapid growth in school spending is unlikely. This highlights the importance of the relative costs of educating children in public school academies, which is the focus of this report.

5. See "Review of Related Research" on page 19; and "Michigan's Charter School Initiative: From Theory to Practice," Public Sector Consultants, Feb. 1999.
6. Public Law 107–110—Jan. 8, 2002, also know as "No Child Left Behind Act of 2001."

Funding Michigan's Public Schools

SOURCES OF REVENUES FOR PUBLIC SCHOOLS

Public schools in Michigan are currently financed by a set of taxes, including:

1. Local property taxes of approximately $4.1 billion, the majority of which comes from the operating tax of about 18 mills levied by local school districts on non-homestead properties and from debt, building-and-site, and sinking-fund millages.[7]
2. A state education property tax of six mills on all property, which generates approximately $1.5 billion.
3. The entire proceeds of the additional 2% sales tax added by Proposal A in 1994, plus a portion of the proceeds of the first 4% sales tax. Of the total sales-tax revenue of approximately $6.5 billion, about three-quarters goes directly to the school aid fund.
4. The entire proceeds of the real estate transfer tax and the state lottery.
5. Portions of the proceeds of other taxes, including the individual income tax, the tobacco tax, liquor excise tax, the state casino gaming tax, and the use tax.[8]

Combined, these sources generated $14.5 billion in operating and capital revenues for Michigan's public schools in 2000, up from $9.7 billion in 1993. Total revenues for Michigan's public schools are expected to exceed $15.6 billion in 2003.[9]

Operating Funding. The above sources of school revenues are largely dedicated to fund operating costs, and are allocated to districts through a foundation allowance. Section 20 of the State School Aid Act defines the state portion of the foundation allowance as:

> ...the state portion of a district's foundation allowance is an amount equal to the district's foundation allowance or $6,500.00, whichever is less, minus the difference between the product of the taxable value per membership pupil of all property in the district that is not a homestead or qualified agricultural property times the lesser of 18 mills or the number of mills of school operating taxes levied by the district in 1993-94 and the quotient of the ad valorem property tax revenue of the district...[10]

7. Estimated using Michigan Treasury and ORTA data showing local K-12 operating revenues of more than $2.1 trillion, ISD revenues of more than $827 million, and K-12 debt revenue of $1.1 billion. See "Appendix Two: Property Tax Revenue for Michigan Public Schools, 2001" on page iii of this reports data appendix.
8. For a useful summary, see *Annual Report of the State Treasurer,* various years, available from the Michigan Department of Treasury web site.
9. For school revenue data see "Appendix One: Michigan School Revenues, Enrollment, and Price Inflation; 1994 - 2003" on page ii of this report's data appendix.

Intermediate School Districts (ISDs) may also seek voter approval allowing the ISD to levy up to three mills to raise additional operating funds on an ISD-wide basis, with the resulting revenue being split on an equal, per-pupil basis across the ISD.[11]

Infrastructure Funding. Traditional public schools in Michigan are permitted to levy additional local property taxes, with voter approval, to raise funds for capital spending or other "infrastructure" purposes. These are commonly called "debt" or "sinking fund" millage.[12] While we consider these capital revenues for the purposes of this report, a significant portion of such revenues actually support operating expenses, such as repairs and the purchase of short-lived assets such as computer equipment and software.[13] Public School Academies are not authorized to levy such taxes, and therefore must support infrastructure expenses—both *bona fide* capital expenditures such as buildings and operational expenditures such as software and repairs—out of their foundation allowances.

REVENUES FOR PUBLIC SCHOOL ACADEMIES

Like traditional public schools in Michigan, PSAs receive funding for operating expenses through the state foundation allowance. This is provided under Section 20 of the School Aid Act, which states that:

> for pupils in membership... in a public school academy or a university school, the allocation calculated under this section is an amount per membership pupil other than special education pupils in the public school academy or university school equal to the sum of the local school operating revenue per membership pupil other than special education pupils for the district in which the public school academy or university school is located and the state portion of that district's foundation allowance, or the sum of the basic foundation allowance under subsection (1) plus $500.00, whichever is less.

All public schools in Michigan, including PSAs, now receive a per-pupil allowance that is at least equal to the State's basic foundation allowance.[14] For 2002-2003 the amount of the basic foundation allowance is $6,700. This has put PSAs

10. This is representative of the foundation allowance as described for 2001-2002. The 2002-2003 basic foundation allowance per pupil is $6,700.

11. http://www.michiganinbrief.org/edition07/Chapter5/Chapter5_Files/27-K-12_Funding.pdf discusses ISD-wide millages.

12. State law also authorizes a "building and site" millage, but these appear to have been rolled into operating millage levies as part of the Proposal A reductions in local millages and increases in state aid.

13. For a detailed discussion, see Patrick L. Anderson, Ilhan Geckil, and Scott Watkins, *Expanded School Sinking Fund Taxes,* Lansing, Michigan Chamber of Commerce, June 2002; available at: http://www.andersoneconomicgroup.com.

14. See e.g., "School Finance Reform in Michigan, Proposal A: A Retrospective," State of Michigan, Department of Treasury. December 2002

on close to an equal footing with most traditional public schools in terms of operating revenues.

However, unlike traditional public schools, PSAs are not able to levy additional taxes for the purpose of raising capital funds. Given this, it is not surprising that many recent studies on PSAs in Michigan have found getting start-up monies to be a great challenge for PSAs, and that many have beginning fund balances that are significantly lower than those of public schools.[15]

Additionally, public school academies are not eligible to share in any ISD-wide enhancement mills that may be levied.[16]

GROWTH IN SCHOOL FUNDING SINCE PROPOSAL A

The amount of funding available for public schools in Michigan has grown rapidly since the 1994 passage of Proposal A. Operating revenue alone increased by 40% during the period 1994-2001. At this same time, price inflation grew about 15%, and enrollment was up about 5%. Thus, most schools have received per-pupil operating revenue increases that are double or triple the rate of inflation.

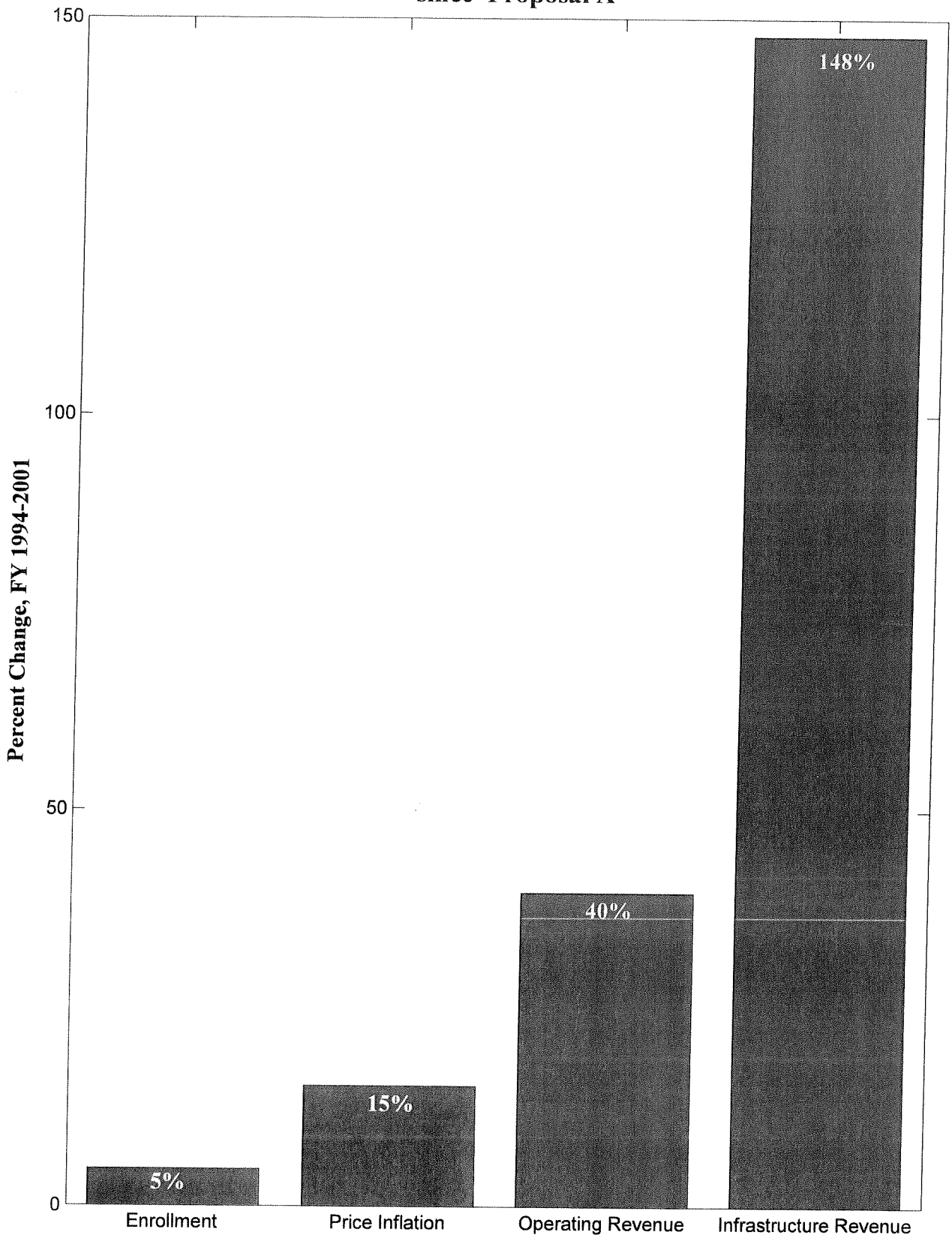
Capital expenditures during this time grew even more rapidly. As shown in Figure 1 on page 9, infrastructure funding (supported by property taxes called debt, building and site, and sinking fund millage) grew an astounding 148% during this period, to an amount exceeding $1.1 billion in 2001.

PSAs receive none of this capital funding, which is the most rapidly growing source of revenue for school districts.

15. An October 2000 analysis from the Michigan Senate Fiscal Agency notes that in FY 1998-99 PSAs had an average beginning fund balance of $60,000 while local school districts with enrollments similar to PSAs had an average beginning balance of $722,100. For a summary of this paper, see "Senate Fiscal Agency" on page 19 of this report.

16. Noted in "Michigan's Charter School Initiative: From Theory to Practice" from Public Sector Consultants, Feb. 1999. We verified this with the Monroe Intermediate School District, Business and Administrative Services; and New Bedford Academy, the only PSA in Monroe ISD. Monroe is the only ISD to levy such a millage.

Figure 1. Michigan K-12 Schools: Price Inflation, Enrollment, and Taxpayer Funding since 'Proposal A'



Source: Anderson Economic Group

Data: Michigan Dept. of Education; Michigan State Tax Commission; Federal Reserve Bank of St. Louis

04/09/2003

Relative Costs of PSAs to Taxpayers

As of late, a number of questions have been raised concerning the actual costs of public school academies to taxpayers. In this section, we analyze the actual costs of educating students in PSAs and traditional public schools, and reveal the relative costs of each to Michigan taxpayers.

We completed three different analyses to estimate the difference in taxpayer costs of educating a child in a public school academy, versus educating a child in a traditional public school.

These methods were:

1. Statutory analysis, using the State Aid Act and other laws.
2. Analysis of the foundation allowances, supplemented with information on capital spending for traditional public schools.
3. Analysis of total state and local revenues, using data reported in MDE Bulletins 1014 and 1011.

STATUTORY ANALYSIS

The statutory analysis, given the information presented in "Funding Michigan's Public Schools" on page 6, is straightforward: PSAs always receive the same, or less, per-pupil funding for operations as their host public school district. In addition, traditional public school districts can levy "infrastructure" taxes, such as debt, building and site, and sinking fund millages, to pay for capital costs. In addition, a portion of the "infrastructure" tax revenue can be spent on operational funding.[17]

Simply examining the statutes tells us that PSAs cost the taxpayers less, but does not tell us *how much* less. For that, we need to review the data.

FOUNDATION ALLOWANCE ANALYSIS

A second method produced a slightly different estimate of relative funding. Using the foundation allowances, we directly compared the operational funding of 188 PSAs with their host districts. This avoids the complicating information on revenue for categorical programs that is included in the total revenue data discussed in "Analysis of Total Revenues" on page 11.

However, the foundation allowance provided for pupils in PSAs is not adjusted to account for students who reside outside of the host district. Those districts may receive foundation allowances that are significantly higher than the "basic" allowance. We do not have complete data on the residency of public school

17. For a detailed discussion, see Patrick L. Anderson, Ilhan Geckil, and Scott Watkins, *Expanded School Sinking Fund Taxes,* Lansing, Michigan Chamber of Commerce, June 2002; available at: http://www.andersoneconomicgroup.com.

academy students, so our foundation allowance cost analysis is based on the foundation allowance provided to the host district alone.[18]

Without including any adjustment for higher-spending host districts, we found 73 cases where PSA pupils receive less funding than their traditional public school counterparts. As shown on page 15, this funding disparity ranges from $25 per pupil in Plymouth-Canton, to $2,001 in Ann Arbor, to a striking $3,802 in Southfield. On the average, per-pupil operational revenue is $356 higher in district schools than in comparable PSAs.

This disparity becomes even larger when capital revenue is considered; traditional public school receive an average of $680 in capital funding each year from the debt millages and sinking funds that PSAs are prohibited from levying.[19] As shown in Table 2 on page 13, this creates a total gap in per pupil funding between PSAs and traditional public schools of slightly over $1000.

Categorical Programs

Certain state and federal-funded programs provide separate funding for certain explicit purposes. These are generally known as "categorical" programs, and are funded by "catgoricals" in addition to the per-pupil allowance for operating purposes. As public school academies are *public* schools, they also participate in categorical programs, and receive categorical funds. For the purpose of this comparative analysis, we would like to exclude the categorical funding and the categorical expenditures for the service for both the public school academies and traditional district schools. The foundation allowance data do exclude these figures, and therefore represent an apples-to-apples comparison.

It is important to note that different school districts, and intermediate school districts, provide categorical programs in different ways. Special education programs are often provided on an ISD-wide basis, using selected schools for students located in various districts. Some services are provided in PSAs in the same manner as in district schools.

ANALYSIS OF TOTAL REVENUES

A third method of analysis used data on the total revenues of public schools. This data is largely reported by school districts on an annual basis using the

18. This makes the comparison conservative, as some students in PSAs would otherwise be in a higher spending district.

19. Capital expenditure calculated as 2001 Capital revenue divided by non-PSA student enrollment; data provided by Michigan State Tax Commission and Michigan Department of Education. Any capital expenditure by PSAs is included as part of the school's foundation allowance.

Michigan Department of Education's "Form B," and compiled in the Department's Bulletins 1011 and 1014.[20]

This analysis has the advantage of using actual data for PSAs and the school districts that host them.[21] Therefore, the data on total revenue are more precise than that implied by statewide averages. However, the total revenue data include revenue for "categorical" programs, which are not uniformly provided to PSAs and their host districts.[22] A total revenue comparison therefore will include misleading data for both public school academies and traditional public schools, and is less reliable than a comparison of foundation allowances and capital revenue.

The results of this analysis are presented in Table 3 on page 13. The table compares total state and local revenue of PSAs with that of district schools that host them. The data indicate that PSAs receive much less local funding, but more state funding. On average, PSAs receive $815 less per pupil than the comparable district school. The fact that this difference in total revenue—even with the distorting factors—is similar to the difference we calculated previously provides additional confirmation of the magnitude of the difference.

20. Bulletins 1011 and 1014 are available from the Michigan Department of Education, Office of State Aid and School Finance

21. Host districts compiled from Michigan Department of Education, Directory of Public School Academies (complied by Joseph L. Garrison, CMU Charter Schools Office).

22. We do not know from the data whether the PSAs, on average, provide more or less categorical services than their host districts. As discussed above, PSAs do offer categorical programs, and receive funds for them, and the arrangements for such services vary significantly among ISD's.

Table 2. Foundation Allowance Analysis

	Average Per PSA Pupil		Average Per Host District Pupil		Difference
Foundation Allowance (a)	**$ 6,932.61**		**$ 7,288.12**		***$ (355.51)***
Additional Capital Revenue	**$ -**	(b)	**$ 680.59**	(c)	***$ (680.59)***
State & Local Total Revenue	**$ 6,932.61**		**$ 7,968.70**		***$ (1,036.10)***

(a) AEG analysis of foundation allowance data from MDE Fiscal Status Reports; averages weighted by number of charter school students as provided by MAPSA; CMU host district pairings.
(b) PSAs not allowed to levy property tax millages; capital expenditures are supported by operating and other revenue.
(c) 2001 Capital revenue divided by non-PSA students; data provided by Michigan State Tax Commission, MDE; comparable to 2001 school district per-pupil debt service figure of $656 reported by S&P School Evaluation Services, "Statewide Insights: Michigan." (S&P figure did not adjust for PSA students.)

Table 3. Analysis of Total Revenues

	Average Per PSA Pupil	Average Per Host District Pupil	Difference
Local Revenue	**$ 156.48**	**$ 1,440.55**	***$ (1,284.07)***
State Revenue	**$ 6,937.07**	**$ 6,467.84**	***$ 469.23***
State + Local Subtotal (d)	**$ 7,093.55**	**$ 7,908.39**	***$ (814.84)***
Memo:			
Federal Revenue	$ 461.92	$ 675.88	***$ (213.96)***

(d) AEG analysis of MDE Bulletin 1014, 2001; Calculated using school districts with available data; averages weighted by estimated number of charter school students. Adjusted to 2002-2003 figures assuming an increase of 4% from 2001 to 2003 for all sources of revenue.

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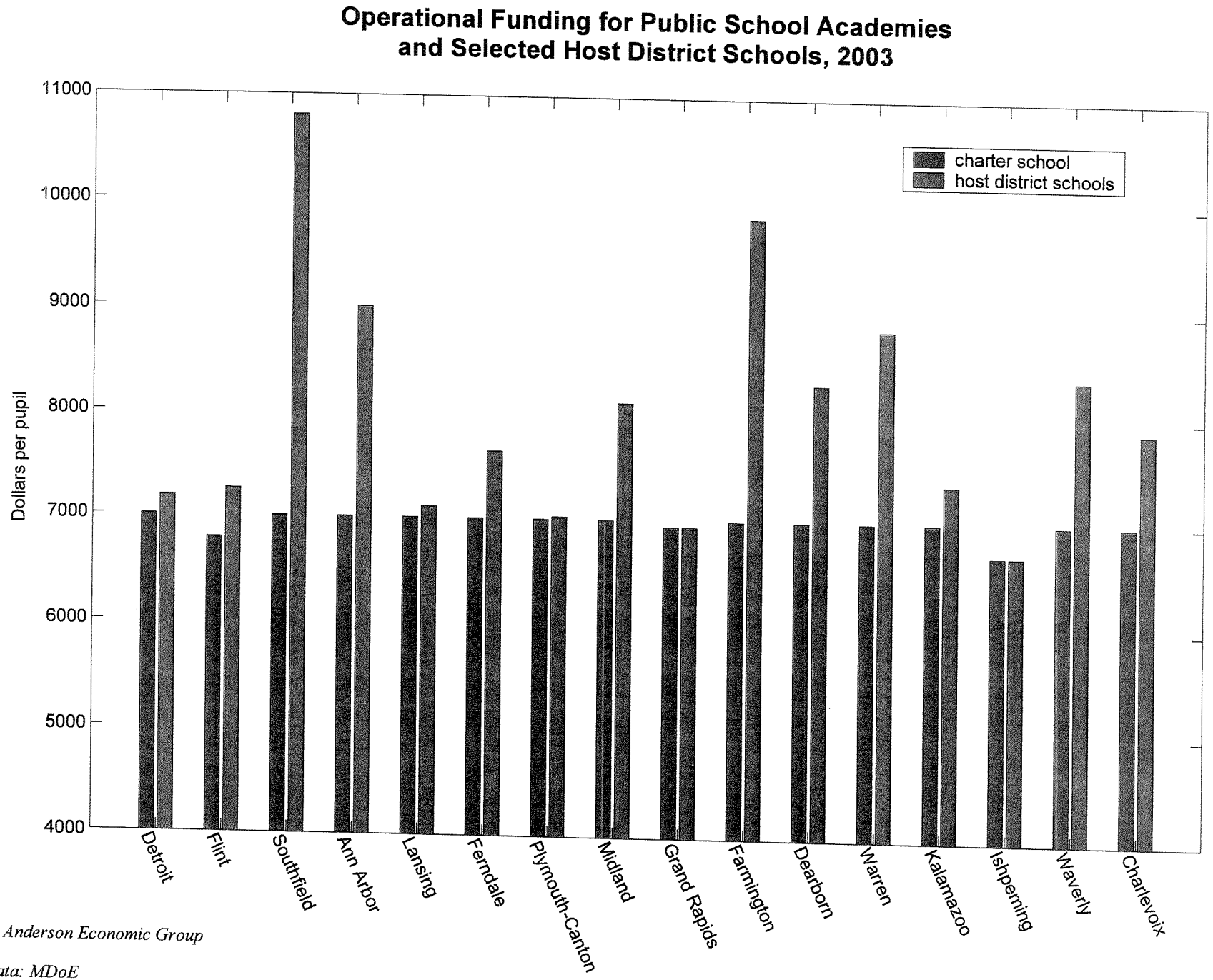
Table 4: Operational Funding for Public School Academies and Selected Host District Schools, 2003

Public School Academy	Per Pupil Foundation Amount	Host Public School District	Per Pupil Foundation Amount	Difference in Foundation Allowance
Academy of Detroit-West	$ 7,000.00	Detroit PS	$ 7,180.00	$ 180.00
Academy of Flint	$ 6,784.00	Flint PS	$ 7,252.00	$ 468.00
Academy of Southfield	$ 7,000.00	Southfield PS	$ 10,802.00	$ 3,802.00
Ann Arbor Learning Community	$ 7,000.00	Ann Arbor SD	$ 9,001.00	$ 2,001.00
Capitol Area Academy	$ 7,000.00	Lansing PS	$ 7,105.00	$ 105.00
Edison-Oakland Academy	$ 7,000.00	Ferndale PS	$ 7,642.00	$ 642.00
Canton Charter Academy	$ 7,000.00	Plymouth-Canton SD	$ 7,025.00	$ 25.00
Midland Acad of Adv & Creative Studies	$ 7,000.00	Midland PS	$ 8,122.00	$ 1,122.00
New Branches School	$ 6,941.00	Grand Rapids PS	$ 6,941.00	$ -
Oakland International Academy	$ 7,000.00	Farmington PS	$ 9,876.00	$ 2,876.00
West Village Academy	$ 7,000.00	Dearborn PS	$ 8,313.00	$ 1,313.00
Arts Academy in the Woods	$ 7,000.00	Warren CS	$ 8,837.00	$ 1,837.00
Navigator Academy	$ 7,000.00	Kalamazoo PS	$ 7,368.00	$ 368.00
North Star Academy	$ 6,700.00	Ishpeming PS	$ 6,700.00	$ -
Windemere Park Charter Academy	$ 7,000.00	Waverly PS	$ 8,384.00	$ 1,384.00
Northwest Academy	$ 7,000.00	Charlevoix PS	$ 7,887.00	$ 887.00
State Average Per-Pupil Operating Revenue	$ 6,932.61		$ 7,288.12	$ 355.51

Note: excludes capital revenue

Source: Anderson Economic Group, LLC
Data: Michigan Department of Education, CMU

Figure 2



Source: Anderson Economic Group

Base Data: MDoE

CONCLUSION: RELATIVE COSTS OF EDUCATION

The analyses above show the following:

1. A review of the statutes governing the funding of Michigan public schools indicates that PSAs are entitled by law to the same operational funding, or less, than the host school district. Furthermore, they receive no additional capital funding.

   This establishes that PSAs cost the taxpayers *less* than district schools, but does not show *how much* less. Therefore, we completed two additional analyses, using two separate data sources.

2. An analysis of operating funds and capital revenue indicates that PSAs receive more than $1036 per student *less*, on average, than the comparable district school. This difference is composed of differences in foundation allowances for operating purposes that average $356 per pupil, plus an average difference in capital revenue per pupil of $681. See Table 1 on page 2.

3. The disparity in operating funds alone ranges from zero in a number of districts, to $25 per pupil in Plymouth-Canton, to $2,001 in Ann Arbor, to a striking $3,802 in Southfield. These figures may underestimate somewhat the actual difference, because some PSA students are resident in nearby districts that spend more than the host school district.

   See Table 4, "Operational Funding for PSAs and Selected Host Districts, 2003," on page 14, and Figure 2, "Operational Funding for PSAs and Selected Host Districts, 2003," on page 15.

4. PSAs receive no capital funding, which averaged $681 per traditional public school pupil in 2001, and accounts for the largest share of the disparity in funding between PSAs and traditional public schools. This has been the fastest growing category of school revenues since the passage of Proposal A in 1994, increasing by 148% between 1994 and 2001. (See "Change in Prices, Enrollment, and Taxpayer Funding since "Proposal A"" on page 9.) Our analysis of the difference in capital funding is also conservative, as we did not have data for 2002 and 2003 capital funding per pupil.

5. A separate analysis of the total revenues reported by schools indicates that PSAs receive about $815 *less* than their host public school districts. These data, however, include non-comparable revenue for categorical programs offered by both public school academies and traditional public schools, which introduces a bias of unknown direction into the comparison. We therefore place less weight on this comparison than the direct comparison of foundation allowances.

METHODOLOGY AND DATA NOTES

We conclude above that PSAs receive substantially less funding per pupil than district schools, on a comparable per-pupil basis. The evidence from the statutes, and two different methods of calculating revenues, is consistent on this point.

However, the underlying data are not perfectly comparable across both sets of schools. We discussed above the inclusion of categorical program funding in one data source, and relied less heavily on that source because it introduced a bias of unknown direction. Below, we note three additional areas where revenue figures miss factors that affect, in at least a small way, the comparison:

- PSAs in Michigan originally appeared to educate more children in the lower (elementary) grades than comparable district schools.[23] Lower grades often have lower student-teacher ratios, meaning a larger teacher salary and classroom infrastructure cost per pupil. Furthermore, PSAs appear to have lower student-teacher ratios than district schools. However, the costs of instructional materials, and the costs of the facility per pupil (including the more extensive athletic facilities most high schools offer) are likely to be higher for upper-grade schools.

  We do not have data on these cost differences, and a recent review found no evidence for the "unproven belief" that higher-grade students cost more to education than lower-grade students.[24] Furthermore, as PSAs have grown to offer more upper-grade instructional options, it has become less likely that the earlier observation about concentration in lower grades is accurate.[25] In any case, we believe the net effect of any difference in low/high grade concentration is much smaller than the difference in the combination of operational and capital revenues.
- PSAs often take children whose behavior, talents, challenges, or parents' inclinations are different than the "average" public school student.[26] We do not know what difference, if any, this causes in costs, but expect it is also small relative to the overall differences in operational and capital revenue.
- A large proportion of children educated in PSAs during the early grades will enter traditional public schools for high school. Therefore, a small portion of the additional capital expenditures for high school—less the additional capital expenditures for lower student-teacher ratios in elementary school—could be considered "fixed" during a reasonably short time frame, for the purposes of comparing the cost differences for PSAs and traditional public schools. Over a longer time frame, all costs are variable. This amount, again, is not easily estimated, and is likely to be smaller than the overall difference in capital and operating expenditures.

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23. See the summary of the 2000 SFA study in "Review of Related Research" on page 19.

24. See "Public School Academies in Michigan," Michigan Senate Fiscal Agency, October 2000. We provide highlights from this paper in "A large proportion of children educated in PSAs during the early grades will enter traditional public schools for high school. Therefore, a small portion of the additional capital expenditures for high school—less the additional capital expenditures for lower student-teacher ratios in elementary school—could be considered "fixed" during a reasonably short time frame, for the purposes of comparing the cost differences for PSAs and traditional public schools. Over a longer time frame, all costs are variable. This amount, again, is not easily estimated, and is likely to be smaller than the overall difference in capital and operating expenditures." on page 17 of this document.

25. MAPSA reports 78 PSAs in Michigan offering high school instruction furing the 2002 - 2003 school year.

26. See e.g., Reynolds, Kim: "Innovations in Charter Schools: A summary of innovative or unique aspects of Michigan Charter Schools," Western Michigan University Evaluation Center, July 2000. This and other research is summarized in "Review of Related Research" on page 19.

- We relied on statewide data on debt, building & site, and sinking fund millage to estimate the average capital revenue per student. This was corroborated by statewide debt service per student compiled by Standard & Poor's.[27] There are two caveats to these data: First, they provide statewide average per student revenue, and there may be some difference between the statewide average and the average for districts that host public school academies. This difference, if any, is likely to be small. Second, the capital revenue per pupil data are from 2001, while the operating revenue differences are from 2003. Given the extremely rapid increase in capital revenue, illustrated in Figure 1, "Change in Prices, Enrollment, and Taxpayer Funding since "Proposal A"," on page 9, this likely understates the actual 2003 capital revenue per pupil.
- The foundation allowance comparisons were completed using information on charter schools and host districts compiled by the CMU charter school office, and from State of Michigan financial status reports for the current fiscal year, and the State Board of Education Directory of Public School Academies.[28] There are likely to be changes in enrollment, data reporting errors, and other changes to the underlying information during the year, and may also be changes in revenue due to executive orders or other measures to trim the state's expenditures in order to meet its Constitutional balanced budget requirement. While these will affect the individual line items of the underlying data, we do not expect them to have a significant effect on the difference between PSA and traditional public school revenue per pupil.

27. Standard & Poor's, "Statewide Insights, Michigan," using 2001 data. Available at: http://www.ses.standardandpoors.com.

28. See "Appendix Three: Per Pupil Foundation Allowance Data, 2003" on page iv and "Appendix Four: Total Revenue Data, 2001" on page ix.

Review of Related Research

There have been a number of analyses of public school academies in recent years, most concentrating on issues other than their finances. These vary widely in methodology, scope, and quality. We summarize the most relevant below, noting in particular any information on the relative costs of district and PSAs.

STANDARD & POOR'S SCHOOL EVALUATION SERVICES

Central Michigan University, which chartered 57 public school academies in Michigan, commissioned Standard & Poor's School Evaluation Services to provide separate, customized, in-depth analyses of the academic and financial performance of each of its schools. More than 70 pages of information are available for each school in the report, including financial information.[29]

The report includes an observation about the smaller amount of revenue available to PSAs, and how this increases the vulnerability of the schools to unexpected financial events:

> Charter schools rely almost exclusively on state foundation payments because they have no taxing authority. Charter schools receive no special funds from the state for facilities, they cannot tax property owners, and they have limited access to the capital markets. Moreover, because they lack a diverse revenue stream, charter schools are vulnerable to economic downturns.

SENATE FISCAL AGENCY

The Michigan Senate Fiscal Agency released an issue paper in October 2000 entitled "Public School Academies in Michigan." The intent of the document was to summarize the laws governing PSAs, to examine the basics of PSAs, to analyze revenues and expenditures, and to compare teacher salaries and class sizes. The following points summarize the paper's findings:

- Public school academies in Michigan enroll younger children at a higher rate than the average school district. The report also noted that there is an "unproven belief" that it costs less to educate primary school students than secondary school students.
- On average, 83% of a PSA's revenue is derived from its foundation allowance, compared to 85% of a local district's revenues. The remaining revenues come from categorical items such as at-risk, special education, and reading improvement grants.[30]
- Teachers in PSAs "must meet the same qualifications as any other teacher in a regular local school district." Despite this, public school academy teachers are paid an average of 20% less than teachers in districts of similar enrollments.[31]

29. The report is available on the SES web site at http://www.ses.standardandpoors.com.

30. Though not noted in the paper, it is assumed that revenue here only consists of operating funds, as capital revenues for traditional public schools are an additional, significant source of revenue.

- More PSAs (21%) than traditional public schools (4%) have a student/teacher ratio less than 15:1. However, the student/teacher ratios of PSAs and traditional schools with similar enrollments to charters do not vary significantly.

HILLSDALE POLICY GROUP

The Hillsdale Policy Group issued an August 1999 report entitled "Report on Charter Schools in Michigan." The report, authored by Dr. Gary Wolfram, makes the following observations:

- There is more demand for PSAs than supply, and that the number of PSAs is limited by barriers including legislative limits on the number of PSAs.
- Public school academies do not "cream" traditional public schools, and in fact serve more minority and at-risk students than do regular public schools.
- Standardized tests, including the MEAP, are not reliable indicators of public school academy performance given that PSAs are so new, and many have not enrolled their students long enough to have a significant impact on their learning.
- The biggest obstacle that PSAs face is obtaining start-up funding for capital needs.
- Analysis of expenditures by PSAs must be done with care given their use of education service providers and lack of capital funds. This often results in misleading results when Form B and Bulletin 1014 are used to establish such data.

OHIO COMMUNITY SCHOOL CENTER AND PUBLIC IMPACT

Community Schools in Ohio were authorized in 1997 and closely resemble PSAs in Michigan. The Ohio Community School Center commissioned a report by Public Impact entitled "Ohio's Community School Funding Gap: revenue disparities between traditional school districts and public community schools." This report found:

- During the 1999-2000 school year, community schools received average state funds of $5,475 per pupil, while similar traditional schools received $7,824 per pupil in state and local revenues.
- "If Ohio's seven largest schools districts had been funded under the community school formula, their collective revenues would have declined by $675 million — a 30% drop."
- Traditional schools in Ohio receive funding from two additional sources not available to community schools. These are a state school construction fund and receipts from local tax revenues.

MICHIGAN STATE UNIVERSITY

In February 2000, Dr. Michael Mintrom of Michigan State University released "Leveraging Local Innovation: The case of Michigan's charter schools." This report was based on surveys of school principals in traditional and charter

31. The paper does not seem to account for years of experience when considering rate of pay.

schools throughout Michigan. The survey questions addressed innovation in educational practices.

Among the report's findings:

- The public school system as a whole evidences a lack of innovation.
- "The most innovative policies and practices currently occurring in Michigan's public schools are indeed to be found in charter schools. This finding holds true no matter whether the focus is school administration and management, the curriculum, instructional techniques, use of technology, or promoting parental involvement."

PUBLIC SECTOR CONSULTANTS

Public Sector Consultants, along with MAXIMUS, Inc., won a joint contract from the State of Michigan to evaluate the State's public school academies soon after they began operation. The study was conducted during the 1997-98 school year, and included 55 PSAs in southeastern Michigan. The study mostly focused on the financial analysis of PSAs, parental involvement, and student achievement. Findings from the study include:

- After approximately two years of operations, PSAs generally had the ability to operate the business aspects of a school. However, "Michigan's charter schools have been unable to access the financing options available to traditional public schools."
- Public school academies often have a higher rate of parental involvement.
- Student achievement in PSAs can not be measured appropriately by MEAP tests given that the tests "reflect the performance level of students as they *enter* their schools," "have racial and gender bias," and do not relate to the objectives set forth by all PSAs.

WESTERN MICHIGAN UNIVERSITY EVALUATION CENTER

The Evaluation Center at Western Michigan University performed an evaluation of public school academy performance, accountability, and impact using data from 1999 and 2000. WMU focused their evaluation on whether PSAs are meeting their statutory requirements, including improving pupil achievement for all pupils, stimulating innovation in teaching methods, achieving school accountability for student performance, and providing parents and pupils with greater choice.

The study, by Jerry Horn and Gary Miron, was released in July 2000 and concluded:

- "Charter schools have made districts more aware of the need to sharpen their mission statements and goals."
- "Competition from charter schools appears to have spurred districts to offer new services, including (a) before and after school programs, (b) all day kindergarten classes (c) language classes in elementary schools, (d) more open and receptive relationships with parents, and (e) clearer mission statements."

- "There is little evidence that charter schools are having a noticeable (positive or negative) impact on the immediate communities in which they are located."
- "While charter schools emphasize they are a new form of public school, they are increasingly appearing and behaving like private schools."
- "Host district students outperform charter school students" on MEAP tests, but "given the nature of many charter high schools (i.e., serving at-risk students), a direct comparison... was deemed to be inappropriate."
- "After nearly five years of operation in Michigan... the state's charter schools are producing few and limited innovations."

An additional piece of research, "Innovations in Charter Schools: A summary of innovative or unique aspects of Michigan Charter Schools," from Kim Reynolds, also of the WMU Evaluation Center, was based on the survey research done for the study by Horn and Miron. In her paper, Reynolds notes "Many charter schools have a large population of students who were underachievers in the district public schools." The paper also makes a number of other observances on PSA curriculums, instructional practices, and governance.

- "While some charter schools appear to be doing new and exciting things, many are not. In fact, Michigan's charter schools are typically acting a lot like traditional public schools."
- More needs to be done to encourage interaction between public school academies and traditional schools to better leverage the innovation that is occurring.
- More incentives should be given to public school academies "to devise, test, and document innovative practices."
- Parental involvement was stronger in public school academies than in district schools.[32]

Weaknesses in the WMU study noted by GAO. A 2002 report issued by the United States General Accounting Office (GAO) found the Horn and Miron study to contain a number of methodological weaknesses.[33] These included, specifically, "inadequate controls for differences between the students in charter schools and their host districts." As a result, the GAO did not use the study as a resource in their report.

32. Mintrom includes a worthwhile methodological discussion on this point. Noting the very strong evidence for higher parental involvement in charter schools, he asks the next question: is it charter schools *causing* higher parental involvement, or parents who desire higher involvement *choosing* charter schools? Mintrom acknowledges that the data are not conclusive on this, but states that the survey results suggest that a portion of the higher involvement is caused by active policies of the charter schools themselves. See p. 44.

33. *Public Schools: Insufficient Evidence to Determine Effectiveness of Selected Private Education Companies*, Washington, GAO, October 2002; number GAO-03-11. See Appendix II.

As the GAO report focused on private management companies, not charter schools, it did not contain analysis of the funding resources for charter schools that could be referenced in this report.

CONCLUSION: RELATED RESEARCH

Our review of the relevant research published on the topic of PSAs produces the following observations:

- PSAs do provide innovation, which is one of their primary purposes. Some do it better than others.
- PSAs operate much like district schools, which should not be surprising, given that they are authorized by the same general law (the revised school code) and in most respects must fulfill the same requirements.
- The point-of-view of the research authors weighs heavily on their judgement about innovation. In particular, two separate studies (by WMU and MSU) released in the same year (2000), when PSAs were operating under the same state statutes, came to diametrically different conclusions. One researcher found the degree of innovation disappointing, writing that charters are "typically acting a lot like traditional public schools," and the other found innovation so extensive that it threatened to turn PSAs "into private schools."
- PSAs do not receive capital funding, which is an impediment.
- PSAs take a large portion of children that are otherwise having difficulty in their local district schools. This again should not be surprising, since parents that are satisfied with the current school have little incentive to change. In one sense, *every* charter student is evidence that a parent was sufficiently dissatisfied that he or she sought another option.
- A direct comparison of average test scores between PSAs and district schools is misleading, because the appropriate measure is the change from previous test scores for the students in each school. This is particularly important given that PSAs are often selected by parents whose children are having difficulty in the traditional school system, or are dissatisfied with the quality of education provided in the district school.
- It is unclear whether younger students or older students are more expensive to educate in the public school system, and a small amount of evidence shows that PSAs have a larger share of elementary grade students than their host districts. Thus, there is little evidence that PSAs serve a lower-cost segment of the school population than comparable district schools, particularly since PSAs that offer elementary grades tend to have lower student-teacher ratios.

We note that much of this research was completed on data from the first few years of operation of Michigan's public school academies. Therefore, we can expect that both the performance of the schools will increase (as PSA administrators and teachers gain experience) and the performance of the students in those schools will change in a direction that cannot be known, as more students opt for education in PSAs.

About Anderson Economic Group

FIRM PROFILE

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PROJECT TEAM

This project team was led by Patrick L. Anderson, Principal, Anderson Economic Group. He has nearly twenty years of professional economics experience, including serving as the deputy budget director for the State of Michigan, chief of staff for the Michigan Department of State, and as an economist for two of Michigan's largest financial institutions, as well as a graduate fellow in the Central Intelligence Agency. He is the author of over 85 published monographs and articles, which have appeared in *The Wall Street Journal, Detroit News, Detroit Free Press, Crain's Detroit Business, Michigan Forward, American Outlook* and other publications.

Christopher Cotton and Scott Watkins served as coauthors of the report. Mr. Cotton, Consultant, has a background in economic development, education policy, and market assessments. Mr. Watkins, Consultant and Director of Marketing and Administration at AEG, has a public policy and marketing background, and was a coauthor of AEGs 2002 report "Expanded School Sinking Fund Taxes."

Also contributing to the project were Mr. Douglas Drake, Mr. Ilhan Geckil, and Ms. Christine LeNet.