



## **Kasich Budget Transfers \$567 Million More For Public Schools to Private and Failing Charter Schools**

### **An Analysis**

#### **Research Overview**

Governor John Kasich introduced Ohio's proposed Executive Budget for Fiscal Years 2012 and 2013 on March 15<sup>th</sup>, 2011. The governor's announcement falsely asserted a one percent increase for primary education in FY12 and FY13, a claim that only withstands scrutiny if revisionist history is applied and State Fiscal Stabilization Funds are wiped from the budget ledger. Upon further study, perhaps even more disturbing is the ideologically-driven commitment to expanding school choice programs without regard to the negative impact such policies would have on funding for traditional public schools.

In addition to the \$395 million (FY12) and \$305 million (FY13) in statewide funding cuts to primary education through the foundation program, Governor Kasich's proposed expansion of school choice would steer even more money from school districts to unaccountable private and charter schools.

**Specifically, Innovation Ohio projects that by FY13, the Kasich budget would transfer an additional \$567.7 million to private and failing charter schools.**

Such a diversion leaves school districts, which are responsible for educating 1.7 million children, with drastically reduced resources at the worst possible time. Local property taxpayers face a troubling choice: dramatically increase their own local property tax burden, or watch their school systems suffer as private and charter schools thrive from historically unprecedented increases in state support.

Innovation Ohio believes that forcing communities to choose between increasing their local taxes or having their school districts to absorb these hidden education cuts is an irresponsible and ideologically driven policy.

#### **Funding School Choice**

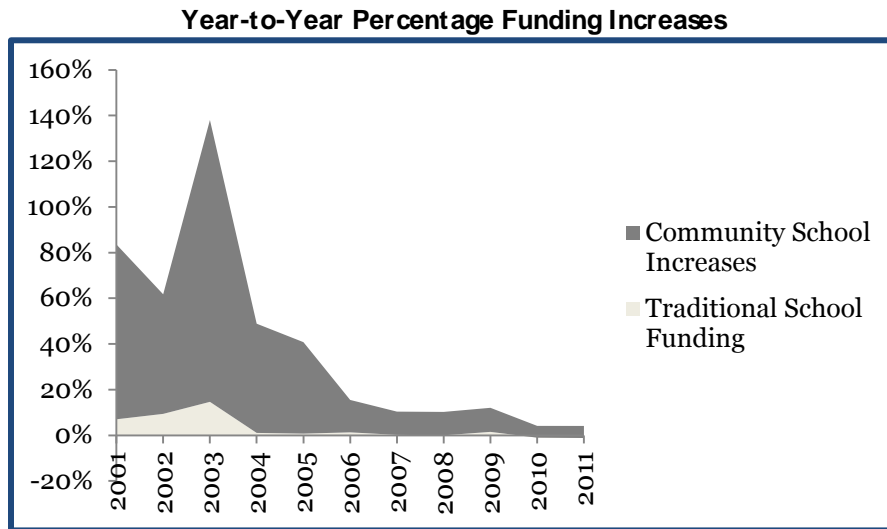
The method used by the state to fund its school choice programs - Cleveland Scholarship and Tutoring Program (CSTP), Educational Choice Scholarship Program (EdChoice), and charter schools - has a negative impact on funding resources for public schools in Ohio. When a student leaves a traditional public school by utilizing these options, the funding the state was going to give to the school district to educate that student is diverted to either a charter or private school. Unfortunately, the per pupil amount is derived from the costs associated with educating the child in a public school district. Because the district still has the same operational costs (such as teacher salaries, bus drivers, utility bills, etc.) that it had before the student left they must now pay the expenses with less state money than they had before.

As a result of this funding method, the average amount the state spends on a student in a traditional public school is lower than the average amount transferred to charter schools, which means, in effect, that the state is transferring locally raised property taxes to charter schools, without any input from the school district's voters.

### **Charter School Deductions**

Charter schools are free from having to comply with nearly 200 mandates imposed on traditional public schools. However, this freedom has not resulted in the promised “cheaper and better” system. Instead, it costs the state, on average, more than twice as much to educate a student in a charter school than a traditional public school.<sup>1</sup> If all Ohio's students attending traditional public schools cost as much to educate as children in charter schools, the state would need to use about half of its entire General Revenue Fund budget on K-12 education.<sup>2</sup>

Make no mistake, the state provides significant revenue to charter schools at the expense of traditional public schools. According to information from the March #1 Payment PASS form from the Ohio Department of Education, charter schools will receive more than \$715 million intended for public school districts in FY11. On average, districts have to replace approximately 3 mills just to finance charter schools. The trend is even more striking (see Figure 1) when examining the incredible funding increases charter schools have received compared with traditional public schools since 2001.



**Figure 1<sup>3</sup>**

As illustrated in Figure 1, charter schools have experienced a 1285 percent increase in funding since 2001 compared with a 25 percent increase for traditional school districts<sup>4</sup>. This clearly demonstrates that when past commitments to increase funding for public schools have been implemented, charter schools saw nearly all the benefit. Rather, the current system of funding school choice programs treats the traditional public school district as little more than a pass-thru for funding less accountable, charter schools.

The success charter schools have exercised in obtaining state funds does not match their success rates in educating children. According to the Ohio Department of Education's 2009-2010 Annual Report on Charter Schools, only 21 percent of charter schools rate effective or better on the state report card, while only one of 286 rated charter schools<sup>5</sup> ranked at the top

of the report card as an Excellent with Distinction District. Meanwhile, according to the ODOE's iLRC 2009-2010 report, 72 percent of traditional school buildings and 88 percent of traditional school districts rate effective or better on the state report card. In fact, 46 percent of public school buildings rate Excellent (A) or Excellent with Distinction (A+), while 45 percent of charter schools rate in Academic Watch (D) or Academic Emergency (F) – success rates that are almost exactly opposite one another. Even more stunning is the fact that all the alleged “increases” in K-12 funding claimed by Governor Kasich and his advisors would go to schools that are more expensive but less effective than traditional public schools. Ironically, traditional public schools will be left with less money to educate the 1.7 million school children still under their roofs.

Equally disturbing, the deduction system for funding charter schools causes great harm to the districts least able to shoulder additional property tax burdens. The districts least able to afford, or pass, an increased property tax levy currently have to convince voters to pass a levy, on average, of 4.23 mills just to replace the revenue the districts lose to charter schools.<sup>6</sup> On the other hand, school districts with a population more capable of paying to make up the difference only need to pass a levy, on average, of approximately .42 mills. That means that Ohioans earning lower wages in poorer communities must pass a property tax rate *ten times higher* than higher-income Ohioans living in wealthier communities.

Increased funding to charter schools will further this divide, forcing middle class and less advantaged families to tax themselves at significantly higher rates than the state's wealthiest families. Innovation Ohio believes it is unwise during a fragile economic recovery to ask middle class families to either increase their local property taxes or watch their children suffer because of an ideologically driven desire to increase funding for charter schools, irrespective of their success in student achievement. Innovation Ohio believes Ohio families should have *better* choices, not just *more bad* ones.

### **EdChoice Vouchers**

The Educational Choice Scholarship Program, or voucher system, costs the 39 school districts that participate more than \$67.7 million<sup>7</sup>, which means the state pays \$5,200, per pupil, to educate the 13,021 students enrolled in private schools. Districts that lose children to EdChoice have to come up with more than 1.5 mills to replace the vouchers lost to private schools. For the 365,525 public school students who remain in those 39 districts, the state pays an average of \$4,327 per pupil.<sup>8</sup>

Because the state transfers more, on average, per pupil than those 39 school districts spend in state dollars per pupil, the state is effectively taking on average more than \$870 per student in local property taxes to send students to private schools.<sup>9</sup>

### **Future Commitments to Reducing School District Funds**

Governor Kasich says he intends to double the EdChoice program, which would make it a \$135.4 million a year program. This increase alone would eliminate the entirety of the governor's alleged “increase” in state funding for K-12 in FY12 of his budget proposal. Furthermore, legislators in the General Assembly have signaled a willingness to expand the voucher program and its funding to include more, if not all, school districts.<sup>10</sup> If the same ratio of children receives the EdChoice voucher statewide as those in the current program encompassing just 39 school districts, Ohio's voucher system would be transformed into a \$327 million annual program.<sup>11</sup>

Charter school growth under the Kasich administration's proposed budget is not widely understood. Governor Kasich says he wants to lift all restrictions on the expansion of charter schools. Given his expressed desire to eliminate barriers to charter school formation, it is not unreasonable to conclude that the growth will closely resemble that of the last 10 years. If that is indeed the case, then by FY13 more than \$1.2 billion would be transferred from traditional public school districts to charter schools. On average, traditional public school districts would have to raise 5 mills to replace the revenue lost to charter schools, or cut services to the 1.7 million students who are not in charter schools.

Innovation Ohio, using Department of Education data from the March # 1 Payment,<sup>12</sup> is able to project that by FY13, using the estimates described above, traditional public school districts will lose an additional \$500 million due to increased charter school deductions at the 10-year average increase of 30.3 percent per year<sup>13</sup>, and \$67.7 million as a result of EdChoice expansion. When added to the average annual expansion of all deduction lines during the last five years<sup>14</sup>, about \$1.7 billion in deductions will be taken from districts in FY13. As a result, the state would effectively remove one-quarter of state revenue designated for school districts in the governor's FY13 budget and give about 80 percent of it to private and charter schools, neither of which are accountable to locally elected school boards.

Districts would either have to raise, on average, nearly 7 mills to replace the losses, or reduce services to children. Once again, the school districts least able to absorb the revenue lost to private or charter schools would have to tax themselves at a much higher rate (a more than 10mill property tax increase, on average) than those most able to replace the lost revenue (less than 2 mill property tax increase, on average). Innovation Ohio believes increasing the funding for charter and private schools through hidden cuts to public education, while simultaneously forcing middle class and low property wealth school districts into making untenable choices, is irresponsible considering Ohio's fragile economic recovery. Indeed, it is an approach that seems motivated more by ideology than by a common sense plan to educate Ohio's children and create the environment necessary for further and long-term economic recovery.

### **Opportunities for Innovation**

#### **1) Create separate line items for EdChoice and charter schools.**

- If the EdChoice and charter school deductions grow as predicted, there could be upwards of \$1.4 billion spent on these programs hidden almost completely from public scrutiny because they are deducted from the school district's foundation amount. These items are of such size and importance that they demand the scrutiny and transparency of their own budgetary line items.

#### **2) Calculate the charter school and EdChoice deductions based on what it costs to educate the child *at the charter or private school*, not the district where the child resides.**

- Generally, teacher salaries are significantly lower at charter and private schools than they are in traditional public schools, yet the state spends far more per pupil educating children through these programs than they do at traditional schools. This makes no sense whatsoever, especially during hard economic times.

#### **3) Follow the School Funding Advisory Council Recommendations on How to Improve Charter and Traditional School Collaboration and Cooperation.**

- The SFAC made great progress toward resolving many of the outstanding issues in the ongoing School Choice Wars. Moving toward a more collaborative system, where Charters and Traditional Schools work in partnership toward better educational outcomes for all Ohio's children is essential to Ohio's future economic success.

**4) Create incentives to grow high-performing charter schools, while closing the poor-performing charter schools.**

- It is unfair and unreasonable to demand better efficiency and effectiveness from traditional public schools, while allowing charter schools to escape similar accountability. At the very least, poorly performing charters should not be allowed to grow unchecked, especially to the financial detriment of the traditional public schools. If traditional schools have to do more with less, the same should be asked of charter schools.

**5) Remove barriers that obstruct opportunities for traditional public schools from implementing best practices of high-performing charters.**

- There are many high-performing charter schools and traditional public schools should be encouraged to model their behavior to improve student success across all levels of education. After all, charter schools can only be justified if they provide a *better* education than traditional public schools, not a *worse* education.

<sup>1</sup> According to the March # 1 payment from the Ohio Department of Education, the 99,136 students in charter schools cost the state \$715,650,400, or \$7,200 per student. The state's 1,746,839 traditional public school children cost the state (including the federal stimulus) about \$5.5 billion after all the deductions are made, or just over \$3,100 per student.

<sup>2</sup> The \$7,200 per pupil amount applied to all 1,746,839 traditional public school children would amount to about \$12.6 billion from the state, or more than \$6 billion additional from the state. The Executive Budget for Fiscal Years 2012 and 2013 proposes a biennial GRF budget of approximately \$55 billion, or \$27.5 billion per year.

<sup>3</sup> Data derived from the final settlement SF-3 and PASS reports from each of the years notated, looking at the net distributions of state funds (after all deductions) to school districts and comparing the increase or decrease over the previous year. The net distribution was used in order to directly compare how much state money ends up spent in traditional school districts compared to charter school districts. The 2011 data comes from the March 2011 # 1 payment.

<sup>4</sup> The first state budget after the Ohio Supreme Court dropped its jurisdiction over the *DeRolph school* funding case began in FY 2004 and traditional public schools have seen almost zero increases since that time.

<sup>5</sup> Not all 323 Charter Schools in the 2009-2010 Annual Report received report card rankings, thus these percentages are ratios with the 286 Charters that are rated.

<sup>6</sup> Classifications are based on a district's Educational Challenge Factor. This measurement examines a district's property wealth, income and educational attainment levels. High ECF rankings are attributed to districts with less wealth, low property values and a lack of educational attainment in the district's population. Low ECF rankings represent districts with high concentrations of wealth, possess high property values and have the best educated citizens.

<sup>7</sup> The total lost to all voucher programs is \$79 million.

<sup>8</sup> The amount districts actually receive from the state after all the deductions are made equal just over \$1.58 billion, divided by 365,525 students.

<sup>9</sup> Calculated using the amount of money actually reaching the districts after all state deductions are removed, which is \$6,114 minus \$4,327.

<sup>10</sup> For example, see House Bill 136 of the 129<sup>th</sup> General Assembly, legislation that significantly expands Ohio's current voucher system.

<sup>11</sup> There are 13,021 students currently using the EdChoice vouchers out of 365,525 possible students in the 39 participating school districts, which represent 3.6 percent of those students. 3.6 percent of the 1.78 million students educated in Ohio would equal 62,886 students and at \$5,200 per pupil (the current per pupil average for EdChoice students), the program would cost \$327 million.

<sup>12</sup> Actual expenditures are the most accurate way to calculate these deductions since statewide projections are not done with the traditional release of state aid data runs during budget debates.

<sup>13</sup> If charters grow at the annual rate they did between 2000 and 2006 (52.7%), it would result in almost \$1.7 billion program for FY13 and total deductions would eclipse \$2 billion.

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<sup>14</sup> In addition to charter schools and vouchers, districts have four other deductions taken from their bottom lines by the state: Open Enrollment, STEM schools, Educational Service Centers (ESCs), and a category called Other Adjustments. Those four deductions have seen annual increases, on average, over the last five years as well. On average, Open Enrollment has cost districts 19.1% more per year, ESCs have grown by 4.4% on average, and Other Adjustments have grown by 8.8%. STEM schools have not been around long enough to make a reliable projection, but if they grow at the slowest rate of the other deductions (ESCs' 4.4%), then by FY 13 these deductions would add another \$87 million to the deductions schools lose. Adding those to the \$567 million increase to charters and vouchers, and all the deductions would cost districts another \$654 million on top of the \$1.03 billion they lose today in total.