Introduction

This chapter compares district and charter school revenues statewide, and for Maricopa County, for fiscal year 2011 (FY11). Comparisons are made to previous research for FY03 and FY07, based on the same methodology. Funding disparities between districts and charter schools for the same geographic area are explored. The per pupil funding values in the analysis are weighted to compare district and charter schools as though they served the same proportions of urban and suburban students (see Methodology for details). Additional research and insights not included in this chapter appear in the monograph at the beginning of this report. The monograph also includes a state-by-state Return on Investment (ROI) analysis, which combines the analysis of revenues with student performance data.
Highlights of the FY11 Analysis

- The 372 charter schools in Arizona, in aggregate, received 18.5 percent less in revenues on a per pupil basis than district schools. Charter schools received $7,783 vs. $9,548 for district schools—a difference of $1,765 (Figures 1 & 3).

- If districts were to educate the same urban/metropolitan vs. suburban/rural proportion of students as charter schools do, the district weighted per pupil would be $9,532, or $1,749 (18.4%) more than charter schools ($9,532 less $7,783; see Figure 3).

- The 225 charter schools in Maricopa County, in aggregate, received 21.1 percent less in revenues on a per pupil basis than district schools. Charter schools received $7,449 vs. $9,443 for district schools—a difference of $1,994 (Figure 3).

- Charter schools in Arizona educate 11.7 percent of total public school enrollment but receive only 9.7 percent of total revenues (Figure 3).

- Magnitude of Disparity: If all Arizona districts received the same level of per pupil funding as charter schools, districts would have received $1,593,384,428 less in total funding (Figure 3).

Probable Causes of Disparities

District students receive $1,765 (18.5%) more in revenues per pupil than charter school students statewide. For Maricopa County the disparity amount favoring districts is $1,994 (21.1%). It is not possible from available data to determine the exact causes of every disparity, but it is possible to narrow the probable causes and focus attention on pertinent policy issues.2 The issues that probably do NOT contribute to the disparity are:

- The “equitable” components of the state funding mechanism:
  - Base Support Level
  - Classroom Site Fund
  - Instructional Improvement (Props 301 & 201)
- Differences in district and charter student demographics, because they are similar
- Other, non-tax source funding (7.5% of total funding statewide for districts, and also for charter schools; see Figure 3)

In FY11, 53.5 percent of state funding mechanism revenues for districts were from the “equitable” funding components noted above, compared to 65.9 percent for charter schools. These equitable components do not contribute to funding disparities.

---

2 The issues that probably do NOT contribute to the disparity are:

- The “equitable” components of the state funding mechanism:
  - Base Support Level
  - Classroom Site Fund
  - Instructional Improvement (Props 301 & 201)
- Differences in district and charter student demographics, because they are similar
- Other, non-tax source funding (7.5% of total funding statewide for districts, and also for charter schools; see Figure 3)
Inequity Expands

The Arizona Department of Education reports a total of 370 charter schools. We analyzed 372 charter schools. The difference is due to 3 charter schools that reported revenue but no enrollment, which were excluded from the analysis. Also, state reporting aggregates 5 district-sponsored charter schools with their sponsoring district revenues and enrollments, not separately as charter schools. The analysis reclassified these related amounts as charter schools, not district schools.

Due to Arizona data improvements in financial reporting and increased access to finance data since FY03 a portion of “Other” revenues that were inseparable from Local revenues in previous studies have been identified and classified in the FY11 study as “Other.” Therefore, these classifications differ from previous analysis publications.

** Figure 3

<table>
<thead>
<tr>
<th><strong>Summary Data Table</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2010-11</strong></td>
</tr>
<tr>
<td><strong>Per Pupil Revenue</strong></td>
</tr>
<tr>
<td>District</td>
</tr>
<tr>
<td>Charter</td>
</tr>
<tr>
<td>Difference</td>
</tr>
<tr>
<td>% of District</td>
</tr>
<tr>
<td><strong>Per Pupil Revenue by Source</strong></td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Local**</td>
</tr>
<tr>
<td>Other**</td>
</tr>
<tr>
<td>Public-Indeter.</td>
</tr>
<tr>
<td>Indeterminate</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td><strong>Enrollment</strong></td>
</tr>
<tr>
<td>District</td>
</tr>
<tr>
<td>Charter</td>
</tr>
<tr>
<td>Total Enrollment</td>
</tr>
<tr>
<td>Charter Schools*</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>District</td>
</tr>
<tr>
<td>Charter</td>
</tr>
<tr>
<td>Total Revenue</td>
</tr>
<tr>
<td><strong>Percentage of Revenue by Source</strong></td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Local</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Public-Indeter.</td>
</tr>
<tr>
<td>Indeterminate</td>
</tr>
<tr>
<td><strong>Magnitude of Disparity = Total funding Difference times District enrollment (see above)</strong></td>
</tr>
<tr>
<td>($1,593,384,428)</td>
</tr>
</tbody>
</table>
Differences in student demographics also do not contribute significantly to disparities. The percentages of students receiving free or reduced-price lunch in charter schools (39.4%) and districts (45.8%) are similar (Figure 11).

Districts educate a greater percentage of special education students than charter schools (12.3% vs. 8.0%). Students with the greater needs comprise 14.5 percent of total special education enrollment, are enrolled in higher percentages in district schools, and are funded with a greater weight to meet those needs. Although this results in greater revenue to districts than charter schools, the limited scope of this additional revenue on a per pupil basis for less than 2.0 percent of total enrollment (12.3% times 14.5% equals 1.8%) may explain some, but not all, of the $1,765 per pupil disparity in total funding statewide.

The probable causes of the disparities include the following:

- **Inequitable Funding Components** -- A significant probable cause is the fact that, in FY11, approximately 46.5 percent of state funding mechanism revenues for districts were from inequitable funding components; for charter schools, 34.1 percent. The single inequitable funding component for charter schools, Additional Assistance, does not effectively equalize for the lack of local taxing authority and for the many other inequitable funding components available only to districts (see bullet list below).

- **Federal Funding Disparity** -- A second probable contributor to the total disparity is Federal funding. Although charter schools are LEAs (except for 5 district-sponsored charter schools), in FY11 they received $897 per pupil in Federal funds compared to the $1,601 per pupil received by districts statewide. The specific cause of this disparity cannot be determined from the available finance data, but this result can occur: a) if small charter schools choose not to pursue certain Federal revenues due to associated administrative burdens, b) because the rules for qualifying for Title I funds favor larger entities like districts, and/or, c) if funds from the Federal American Recovery and Reinvestment Act (ARRA) and State Fiscal Stabilization Fund (SFSF) grants provided to the state did not get distributed equitably to districts and charter schools.

- **Facilities Funding** -- A third probable contributor to the total disparity is the lack of facilities and capital funding for charter schools compared to multiple sources for facilities and capital funding for districts.

- **Additional Assistance Determination** -- A fourth probable contributor is the state’s legislative process for determining the amount of Additional Assistance for charter schools. The current process fails to effectively peg the amount of Additional Assistance to economic indicators to keep the amount realistic over time, and does not attempt to apply pertinent computations using known finance amounts and factors designed to achieve parity with districts. The end result of a $1,765 per pupil disparity demonstrates that Additional Assistance is not equalizing district and charter funding.

**Where the Money Comes From**

Arizona funding for public education is sourced from: the state general fund (primarily sales and income taxes), real estate property taxes, and Native American Indian Reservation Gaming Operations. Property taxes are based on assessed property values times a tax rate, which is comprised of state, county, municipal, school, and special district tax rate components. The sales tax consists of separate state, county and city rate components. A portion of sales tax can be designated for public education.

**How Arizona Funds its Districts**

In FY11, 35.3 percent of district funding was provided from State sources, 16.8 percent from Federal sources, 40.5 percent from Local sources, and 7.5 percent from Other sources (see Figure 3). Both districts and charter schools received 92.5 percent of funding from public sources (see Figures 4 & 5).
The state funding mechanism in Arizona contains *equitable* components that fund districts and charter schools at near parity on a per pupil basis; and *inequitable* components that mostly favor districts with more revenue per pupil than for charter schools. The *equitable* components include the following:

- **Base Support Level (BSL)** – set by state legislature; $3,267 per weighted student count in FY11;
- **Classroom Site Fund** – a portion of funds from state sales tax; $220 per weighted student count in FY11;
- **Instructional Improvement (Props 301 & 201)** – also known as the Indian Gaming fund, reservations gaming operations; in FY11 approximately $40 million paid based on student count.

The *inequitable* components of the state funding mechanism include one component of revenue that charter schools receive but districts do not receive, **Additional Assistance** ($1,607 per K-8 student; $1,873 per 9-12 student in FY11). Effective FY2000, the funding formula was modified by Students FIRST legislation, which replaced four charter school funding sources with Additional Assistance. The four replaced sources were:

- Transportation Support Level (TSL)
- Capital Outlay Revenue Limit (CORL)
- Capital Levy Revenue Limit (CLRL); now Soft Capital Allocation Limit (SCAL)
- Additional capital assistance

Other State and Local funding sources available to districts but not to charter schools include:

- Debt Service
- School Facilities
- Adjacent Ways
- Other Maintenance & Operations
- Desegregation – for Office of Civil Rights agreements; funded by local taxes
- Excess Utilities (since phased out)
- Dropout Prevention
- Career Ladder (to be phased out by 2015)
- M&O Overrides – funded by local taxes
- K-3 Maintenance and Operations Overrides – funded by local taxes
- Capital Overrides

In FY11, 53.5 percent of state funding mechanism revenues for districts were from the *equitable* funding components noted above, compared to 65.9 percent for charter schools. The remainder of state funding mechanism revenues were from the *inequitable* funding components – 46.5 percent for districts and 34.1 percent for charter schools.

On a per pupil basis, districts received almost twice as much Federal revenues as did charter schools in FY11 -- $1,601 for districts vs. $897 for charter schools statewide. Federal revenues include funds from all Federal Grants, American Recovery and Reinvestment Act (ARRA), State Fiscal Stabilization Fund (SFSF), and Impact Aid. Charter
schools are local educational agencies (LEAs) for federal funding purposes and, therefore, have a general ability to access federal funds on par with districts. However, there are few controls to assure that federal ARRA and SFSF funding is equitably distributed to districts and charter schools. State financial data lacked sufficient specificity to determine a specific reason for this federal funding disparity.

Statewide, Local funding comprises $3,864 in per pupil revenue for districts, or 40.5 percent of total district funding (including all sources of funding).

**How Arizona Funds its Charter Schools**

Statewide in FY11, 80.9 percent of total charter school funding was provided from State sources, 11.5 percent from Federal sources, 0.1 percent from Local sources, and 7.5 percent from Other sources (see Figure 3). Both districts and charter schools received 92.5 percent of their funding from public sources (see Figures 4 & 5).

The funding formula is essentially the same for districts and charter schools for the **equitable** components of the formula: Base Support Level (BSL), Classroom Site Fund, and Instructional Improvement (Props 301 and 201). That funding comprises 65.9 percent of charter funding vs. 53.5 percent for districts. It is the **inequitable** components of the funding mechanism that provide the potential for district-to-district and district-to-charter school funding disparities. The **inequitable** components comprise 34.1 percent of charter funding vs. 46.5 percent of district funding. See also the discussion above about district funding.

Charter schools receive virtually no Local funding ($8 per pupil, or 0.1%, Figure 3).

**Funding for Public School Facilities**

Arizona provides little facilities assistance to charter schools. The Arizona Department of Education is required to publish a list of vacant buildings owned by the state and school districts that are suitable for use by charter schools. However, nothing requires the owner to offer the right of first refusal to purchase or lease at or below fair market value to charter schools, thus limiting practicality for on-going charter operations.

Arizona law provides charter schools with a per pupil allocation called “Additional Assistance,” which is intended to equalize for the fact that charter schools have no local taxing authority. Additional Assistance funding may be used for facility construction as well as other operational needs. However, the amount of Additional Assistance, which is set legislatively each year, is too little to equalize for the many other funding sources available to districts. There is no provision for this amount to be adjusted to reflect average facility funding received by districts or a construction price index.

If State and Local revenues per pupil are combined to evaluate sufficiency of equalization efforts (to compensate for lack of local taxing authority by charters) the result is an insufficiency of equalization. The amount of per pupil district revenues from State and Local sources is $7,230; for charter schools it is $6,301 -- or, a disparity shortage of $929 for every charter student. Allowing charter schools to use their Additional Assistance funding for facilities is essentially the equivalent of saying there is no funding for charter facilities when Additional Assistance already lacks parity in the amount of $929 per pupil for charter schools.

Arizona protects equal **non-financial** treatment of charter facilities by classifying charter schools the same as district schools for purposes of assessments of zoning fees, site plan fees, and development fees, including hearings and applications. But **financial treatment** for charter facilities is not equal in scope, process, or access. Arizona law allows non-profit charter schools to apply for bond financing from Industrial Development Authorities. District public schools, on the other hand, rely on county governments to issue and repay bonds for school construction, maintenance, and renovation; and have additional access to state capital funds.
Long-Term Funding Patterns

For Arizona, we now have three point-in-time snapshots of public education funding for FY03, FY07, and FY11. Please note that in the presentation and discussion of longitudinal data that follows, the figures used are inflation adjusted to 2007 dollars and differ from figures presented in Figure 3, which includes actual and weighted per pupil revenues representing FY11 only. The inflation adjusted per pupil revenues in Figures 6 – 8 are for comparative purposes only. Refer to the Methodology section for more on inflation adjustments.

Total Funding

Figure 6 illustrates how total revenue per pupil, inflation-adjusted, decreased between FY03 and FY11 for districts and charter schools statewide and for Maricopa County.

FY03 and FY07 Statewide Total Funding Disparity: Consistent with the funding disparity noted in FY11 data in Figure 3 above, note that the statewide disparity favoring districts using inflation-adjusted dollars for FY03 was $1,957 ($9,608 for districts less $7,651 for charters) or 20.4 percent; and for FY07 was $1,980 ($9,577 less $7,597) or 20.7 percent (Figure 6). There has been a persistent total funding disparity over the past eight years favoring districts.

Total Funding Changes from FY03 to FY11: Statewide, inflation-adjusted district total revenues per pupil decreased from FY03 to FY11 in the amount of $824 ($9,608 less $8,784), or 8.6 percent; for charter schools $491 ($7,651 less $7,160), or 6.4 percent. In Maricopa County, district total revenues per pupil decreased from FY03 to FY11 in the amount of $1,192 (9,880 less $8,688), or 12.1 percent; for charter schools $367 ($7,220 less $6,853), or 5.1 percent. Between FY03 and FY11, district total revenues per pupil have decreased more than for charter schools, yet there is still an 18.5 percent funding disparity favoring districts (Figure 3).
**Total Funding Less Other**

Our study includes total funding whether the funds originate from public or private sources. Other is comprised of philanthropic dollars and other non-tax revenues, which can play a significant role in the financing of charter schools. Therefore, we have removed Other dollars from this level of analysis to determine if funding from public sources is distributed equitably to districts and to charter schools. Public funding includes Local, State, Federal, Indeterminate-Public, and where we cannot determine the source, Indeterminate.

Figure 7 illustrates how Total Less Other revenues per pupil, inflation-adjusted, has shown a moderate decrease for districts and charters statewide and for Maricopa County across three study periods (FY03, FY07, & FY11). Also noteworthy is the fact that the largest decrease occurred between FY07 and FY11.

Consistent with other funding disparities noted in this analysis, note in Figure 7 that the statewide disparity favoring districts using inflation-adjusted dollars for FY03 was $2,032 ($9,212 for districts less $7,180 for charters) or 22.1 percent; for FY07 was $1,939 ($9,013 less $7,074) or 21.5 percent; and for FY11 was $1,502 ($8,124 less $6,622) or 18.5 percent. When Other revenues are removed from total revenues the disparity, on a percentage basis, increased for FY03 and FY07, and remained the same in FY11. There has been a persistent total funding disparity over the past eight years favoring districts; whether Other revenues are included or excluded from consideration.

Statewide, the larger Total Less Other decrease from FY07 to FY11 for districts is in the amount of $889 ($9,013 less $8,124), or 9.9 percent. The decrease for charters from FY07 to FY11 is in the amount of $452 ($7,074 less $6,622), or 6.4 percent.

![Figure 7](image-url)
Other Funding

Statewide, and for Maricopa County, Other funding has increased significantly and consistently for both districts and charter schools for the past eight years across FY03, FY07, and FY11. Other revenues consist of any revenue from non-public, non-tax sources; from items, such as: donations, fees, earnings on investments, school lunch revenues, or ticket sales. Despite this significant increase, Other revenues still comprise only 7.5 percent of total funding for districts and 7.5 percent for charter schools (see Figure 3, and Figure 8).

Figure 8

<table>
<thead>
<tr>
<th>Year</th>
<th>Statewide District (D)</th>
<th>Statewide Charter (C)</th>
<th>Maricopa County-D</th>
<th>Maricopa County-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003</td>
<td>$397</td>
<td>$471</td>
<td>$452</td>
<td>$380</td>
</tr>
<tr>
<td>FY2007</td>
<td>$564</td>
<td>$523</td>
<td>$635</td>
<td>$565</td>
</tr>
<tr>
<td>FY2011</td>
<td>$660</td>
<td>$538</td>
<td>$692</td>
<td>$623</td>
</tr>
</tbody>
</table>
Changes in Funding Results

Figure 9 illustrates changes in funding levels by source from FY03 to FY11, using inflation-adjusted dollars (adjusted to 2007). There are significant changes:

- Total revenue has decreased moderately for both districts and charter schools statewide, and for Maricopa County;
- Other revenue has increased greatly for both districts and charter schools statewide, and for Maricopa County;
- State revenue has decreased moderately for both districts and charter schools statewide, and for Maricopa County;
- Federal revenue has increased for districts statewide and in Maricopa County; has increased for charter schools in Maricopa County; but decreased for charter schools statewide.
- Local revenue has decreased moderately for districts statewide, and for Maricopa County. Charter schools receive only 0.1 percent of revenue from Local sources, so fluctuations are immaterial and insignificant.

Figure 9

<table>
<thead>
<tr>
<th></th>
<th>Per Pupil Revenue -- Inflation Adjusted -- Over Time</th>
<th>Percentage Increase / Decrease (black shading)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2003 / FY2011</td>
<td>Federal</td>
</tr>
<tr>
<td>Statewide District (D)</td>
<td></td>
<td>29.9%</td>
</tr>
<tr>
<td>Statewide Charter (C)</td>
<td></td>
<td>-18.3%</td>
</tr>
<tr>
<td>Maricopa County-D</td>
<td></td>
<td>39.4%</td>
</tr>
<tr>
<td>Maricopa County-C</td>
<td></td>
<td>20.6%</td>
</tr>
</tbody>
</table>

Figure 10 shows that the percentage of disparity from FY03 to FY11 has slightly decreased; but is still substantial, earning a disparity grade of “D” in all three study time periods.

Figure 10

<table>
<thead>
<tr>
<th></th>
<th>Disparity as Percent of District -- Over Time</th>
<th>Negative Disparities Mean Districts Receive More (red text)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus Area</td>
<td>FY2003</td>
<td>FY2007</td>
</tr>
<tr>
<td>Statewide</td>
<td>-20.4%</td>
<td>-20.7%</td>
</tr>
<tr>
<td>Maricopa County</td>
<td>-26.9%</td>
<td>-22.8%</td>
</tr>
</tbody>
</table>

Select Enrollment Characteristics

District and charter school percentages for free or reduced-price lunch, a proxy for low-income, are similar from FY03 through FY11. Similarly, the district and charter school percentages for Title I are similar from FY03 through FY11 (except, see the note immediately under the chart). In Arizona, districts educate a higher percentage of special education students, 12.3 percent vs. 8.0 percent. Districts educate a higher percentage of special education students with greater needs (approximately 14.5% of total special education, or 1.8% of total enrollment). See the “Probable Causes of Disparities” section above for additional information.
Charter School Funding: Inequity Expands

Figure 11

Select Enrollment Characteristics

<table>
<thead>
<tr>
<th>Student Group &gt;&gt;</th>
<th>Percentage of Total Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year &gt;&gt;</td>
<td>Free &amp; Reduced Lunch</td>
</tr>
<tr>
<td></td>
<td>FY03</td>
</tr>
<tr>
<td>Statewide District</td>
<td>30.7%</td>
</tr>
<tr>
<td>Statewide Charter</td>
<td>49.3%</td>
</tr>
</tbody>
</table>

* Title I percentages were obtained from NCES Common Core of Data, because across all states analyzed reporting for Title I was often incomplete or not available at all. The NCES source contains notes indicating when data received from states were not in conformance with NCES data quality standards and when data elements were missing. Further, analysts noted a few instances where the NCES data do not appear to be correct. The 92.5% above for Title I in FY11 as reported by NCES does not appear to be a correct number because usually there is somewhat of a proximate relationship between free or reduced-price lunch eligibility and Title I, and because in FY03 and FY07 the percentage of Title I enrollment went from 51.0% to 56.3%. Therefore, this analysis discounts the accuracy of the 92.5% and makes no reference to this percentage in this chapter.

Funding Practices Summary

Figure 12

<table>
<thead>
<tr>
<th>PURPOSE</th>
<th>GRADE</th>
<th>FUNDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>This table summarizes answers to key funding mechanism questions in context with a grade based on actual funding results.</td>
<td>D</td>
<td>D</td>
</tr>
</tbody>
</table>

* Grade based on % of Actual Funding Disparity

Access to Funding Sources

<table>
<thead>
<tr>
<th>Question</th>
<th>FY2003</th>
<th>FY2007</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do charter schools have access to this funding source according to state statutes?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>In practice, do charter schools have at least as much access to this funding source as districts have?</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Do charter school students receive at least 95% as much per pupil in revenue for this source as district students?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Data Availability

<table>
<thead>
<tr>
<th>Question</th>
<th>FY2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the state provide reasonable access to detailed public data on federal, state, local, and other revenues for district schools?</td>
<td>Yes</td>
</tr>
<tr>
<td>Does the state provide reasonable access to detailed public data on federal, state, local, and other revenues for charter schools?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Funding Formula

<table>
<thead>
<tr>
<th>Question</th>
<th>FY2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are charter schools treated as LEAs for funding purposes?</td>
<td>Yes</td>
</tr>
<tr>
<td>Does the state provide funding for charter schools and districts based primarily on student enrollment?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

1 Arizona charter schools are LEAs, except for 5 district-sponsored charter schools.

2 The “equitable” state funding mechanism components are based on student counts and weighted student counts. There are many “inequitable” components available only to districts; therefore, these are not based on district and charter school enrollment.
Endnotes


