



## Short-Changed: How Poor-Performing Charters Cost *All* Ohio Kids

### Introduction

Last year, Innovation Ohio produced a landmark report<sup>1</sup> proving that Ohio's charter schools have received substantial sums of taxpayer money at the expense of better-performing school districts.

The report used data from the 2011-2012 school year, which tracked every transfer<sup>1</sup> of money between all districts and every charter school receiving state money originally intended for those districts. Because that report was so well-received, Innovation Ohio has updated its analysis using data from the 2012-2013 school year.

While the state's new Report Card has somewhat complicated the analysis, the results this year are equally bad, if not worse, for Ohio's schoolchildren.

Our principal findings are these:

- **The flawed way in which charter schools are funded in Ohio will result in traditional school students receiving, on average, 6.6% less state funding this year (around \$256 per pupil) than the state itself says they need;**
- **Well over half of all state money sent to charters goes to schools that perform worse than traditional public schools on one or both of the state's two major performance measurements (the Report Card and the Performance Index);**
- **A number of high-performing suburban school districts are now among the biggest losers in per pupil funding;**
- **On average, Ohio charters spend about double (23.5% vs. 13%) on non-instructional administrative costs than do traditional public schools;**
- **53% of children transferring into charter schools are leaving districts that perform better;**
- **In 384 out of Ohio's 612 school districts, every dime "lost" to charters went to schools whose overall performance was worse on the State Report Card.**

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<sup>1</sup> For this report, "transfer" means all children that go between a particular district and a particular charter school. For example, if 1 or 1,000 children go from Cleveland Municipal School District to a charter school, that is considered a single transfer because the Ohio Department of Education provides the total number of students and total amount of money going from a particular district to a particular charter. So, importantly, the number of transfers does not equal the number of children being transferred.

## Wither “School Choice?”

Charter school proponents claim that unfettered parental “choice” is the key to fixing Ohio’s educational system. Equally important, they claim that “choice” will be cost-neutral and have no impact on traditional public schools.<sup>ii</sup>

Neither claim is true.

Indeed, our analysis of the data provided by the Ohio Department of Education conclusively proves that the manner in which Ohio funds charter schools significantly *reduces* the money available to the 1.6 million children who stay in traditional public schools. Moreover, in the vast majority of cases, money is being transferred from better performing traditional school districts to worse performing charter schools. This holds true even in many urban school districts where performance scores have traditionally lagged.

To be clear: IO does not condemn “school choice” per se, or say that choice cannot have a place in Ohio’s educational landscape. Our objection is to the way in which choice is being funded in this state. Specifically, we believe charter funding should not penalize the vast majority of students who remain in traditional schools. And we reject the idea that choice for the sake of choice is a worthy goal. Promoting choice without regard to education quality is a cruel hoax on both students and parents. If better educational opportunity is our aim, then surely “choice” that results in worse opportunities for children is no choice at all.

## The Flaw in How Ohio Pays for “Choice”

Ohio charter schools receive a per-pupil amount, based on enrollment, which is deducted from state money that’s provided to the public school district where the child resides. This amount is taken from the district’s state aid amount, regardless of whether the child ever attended school in the district where they live.

The per-pupil amount deducted for charters for this school year is \$5,745 (\$5,800 next year), plus any special education and other weighted funding. The amount is derived from Ohio’s old “Building Blocks” calculation<sup>2</sup> of the various expenses involved in educating a child in a traditional public school.

*Basing the per pupil charter deduction on costs in traditional public schools represents the major flaw in how Ohio funds charter schools.*

As IO demonstrated in our previous report,<sup>iii</sup> charter schools generally have much lower costs than traditional public schools. Specifically, charter school teachers are paid far less, charters have no student transportation expenses, and charters are exempt from the cost of complying with some 300 legal requirements traditional public schools must meet.

Because charter funding is deducted directly from the amount of money school districts receive, overestimating what charters actually spend will unfairly reduce the already dwindling resources available to the children who remain in traditional public schools. It could also lead to charters using the state funding they receive inefficiently. And, in fact, the data indicates that is already happening, as a later section of this report will show.<sup>iv</sup>

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<sup>2</sup> When HB 59 (the 2013 Budget Bill) was introduced last year, the amount to be transferred was based on Gov. Kasich’s Achievement Everywhere Plan. When the Ohio House essentially dumped the plan, it set the amount to be transferred to charters at \$5,732 per pupil for this school year and \$5,789 next year. The Senate upped those amounts by \$13 and \$211, respectively, where it stayed through Conference Committee. The \$5,732 figure used by the House was the actual Building Blocks per pupil calculation in FY09. The additional funds the legislature arbitrarily added on top of that amount in a classic case of residual budgeting. <http://www.lsc.state.oh.us/fiscal/comparedoc130/enacted/edu.pdf>

## How Charter Funding is Short-Changing Traditional Public School Students

Table 1 illustrates the degree to which charter school funding is negatively impacting the kids who remain in traditional public schools.

**Table 1: Funding Losses Due to Charter Deduction, Per Pupil, 2013-2014<sup>3</sup>**

	Enrollment	State Funding	Per Pupil
<b>All students in Ohio public schools</b>	1,713,587	\$ 6,666,455,622	\$ 3,890
<b>Children who leave to attend charters</b>	123,497	\$ 887,880,706	\$ 7,189
<b>Children remaining in traditional publics</b>	1,590,090	\$ 5,778,574,916	\$ 3,634
<i>amount lost (per pupil) by traditional public students</i>			\$ 256

Prior to the charter deductions, Ohio provides \$3,890, on average, to the state's 1.7 million school children. However, once charter deductions are made, traditional school children are left with just \$3,634, on average. That is a reduction of \$256 per pupil, or 6.6% less than they were slated to receive under the state funding formula.

*In other words, the 1.59 million Ohio schoolchildren who remain in traditional public schools get 6.6% less state money, on average, than the state formula says they need. Four years ago, that figure was 5.5% less.*<sup>v</sup>

This means that over the past four years, Ohio's traditional public school kids have lost, on average, about 20 percent more state revenue as a direct result of the state pumping an additional \$166 million into mostly underperforming charter schools.

But if districts overall are slated to lose 6.6% in per pupil funding this school year, the amount lost by *any particular* district varies widely.

Table 2 lists the 25 public school districts that will suffer the greatest percentage losses in per pupil funding<sup>4</sup> because of the charter school funding system.

**Table 2: Top 25 Districts of Percentage of State Aid Lost Per Pupil to Charter Deduction, 2012-2013**

District	County	State Aid % Lost to Charters (per pupil)
<b>Brooklyn City SD</b>	Cuyahoga	-65.9%
<b>Richmond Heights Local SD</b>	Cuyahoga	-58.4%
<b>Lordstown Local SD</b>	Trumbull	-57.8%
<b>Woodridge Local SD</b>	Summit	-40.0%
<b>Columbus City SD</b>	Franklin	-27.6%
<b>Parma City SD</b>	Cuyahoga	-25.3%

<sup>3</sup> Based on January #1 Payment

<sup>4</sup> There are a few districts that actually see a slight increase in per pupil state funding after children exercise choice options. However, the average district "benefit" is .6%. The overwhelming impact of this system is significant per pupil state funding losses for every traditional public school student not in a charter school.

District	County	State Aid % Lost to Charters (per pupil)
Springfield Local SD	Lucas	-22.5%
Cincinnati City SD	Hamilton	-21.2%
Maumee City SD	Lucas	-20.7%
Westlake City SD	Cuyahoga	-18.9%
Princeton City SD	Hamilton	-18.0%
Bedford City SD	Cuyahoga	-16.7%
Riverside Local SD	Lake	-16.6%
Copley-Fairlawn City SD	Summit	-16.0%
Field Local SD	Portage	-15.6%
Rossford Ex Vill SD	Wood	-15.1%
Van Buren Local SD	Hancock	-15.1%
Wickliffe City SD	Lake	-14.8%
Groveport Madison Local SD	Franklin	-14.8%
Rocky River City SD	Cuyahoga	-14.5%
Avon Lake City SD	Lorain	-14.1%
Berea City SD	Cuyahoga	-13.8%
Olentangy Local SD	Delaware	-13.4%
Howland Local SD	Trumbull	-13.3%
New Albany-Plain Local SD	Franklin	-13.2%

As the table makes clear, it is not just urban districts (where charters were originally opened to provide an “alternative” to underperforming traditional public schools) that are now losing money to charters.

In fact, several of the biggest losers are *high-performing suburban school districts* like Rocky River outside Cleveland and Olentangy outside Columbus. In these cases, aggressive marketing by charter schools (including the use of slick television advertising) is almost certainly a primary factor.

*Please note that this report deals only with monies traditional public schools are losing to **charter** schools. In the near future, IO will release a follow-on report showing how high quality suburban districts are also losing enormous sums of money to **private** schools, thanks to Ohio’s ever-expanding voucher programs.*

## Higher Administrative Costs at Charters

Charter school advocates often argue that charters spend taxpayer money more efficiently than do traditional public schools. In reality, the exact opposite appears to be true. Brick-and-mortar charters are, in fact, *less* efficient than their traditional public school counterparts.

According to an Ohio Department of Education analysis, brick-and-mortar charters spend \$54 more per pupil than the average traditional public school district.<sup>vi</sup> This was further confirmed by

ODE expenditure data from the 2012-2013 school year that showed the average brick and mortar charter school spends \$918 more per pupil than the average district.<sup>vii</sup>

The ODE data indicate just how outside the norm Ohio's charter school spending is with the rest of the country. The average brick and mortar Ohio charter school spends \$2,777 more per pupil – almost 35% -- than the average charter school nationwide.<sup>viii</sup> Only 67 of the 342 charter schools (about 1 in 5) listed by the ODE expenditure data spend less than that national average.

If all this extra spending went into classroom instruction, that would be one thing. But instead, it goes into administrative overhead. According to State data, Ohio's traditional public school districts dedicate 13% of their spending to administration,<sup>v</sup> while the average charter spends about 23.5% on non-instructional administration.<sup>ix</sup> The per pupil amount spent on administrative costs is about \$1,200 higher in Ohio charters than school districts.

***In short, Ohio's charter schools are falling far short of what they promised. Instead of educating our state's children cheaper and better than traditional public schools, charters are more expensive for the state, have more administrative bloat, and have a poorer performance record overall.***

## Funding Failure and Tricking Transfer Students

It is bad enough that the money given to charters results in traditional school students receiving less funding than the state itself says they need. Even more galling is that in the overwhelming majority of cases, the money goes to charters that perform worse than the district of residence on one or both of the state's two major performance measures: the state Report Card and Performance Index.<sup>6</sup>

In fact, of 5,187 transfers between a traditional public district<sup>7</sup> and a charter school that received a report card grade in any of the 8 categories, 4,355, (or 84%) went from districts that outperformed the charter.<sup>8</sup> And 88% of those transferring to charters that had performance index scores (4,555 of 5,177) went to schools with *lower* performance index scores than the districts they transferred from.<sup>9</sup>

Indeed, just 12 charter schools in the entire state weren't outperformed by their feeder districts in any Report Card category. Just 10 out of the 116,139 students who attended Ohio charter schools last school year enrolled in a charter that *outperformed* the feeder district's schools in all

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<sup>5</sup> Described by the Ohio Department of Education this way: "These costs do not deal directly with the education of the students and encompass planning, research, information services, staff services, and data processing expenditures." <http://education.ohio.gov/Topics/Finance-and-Funding/Finance-Related-Data/Expenditure-and-Revenue/Expenditure-Revenue-Data>

<sup>6</sup> The state Report Card rating gives letter grades to a school district or charter school for the following categories: Performance Index Score, Standards Met, Overall Value Added, Gifted Value Added, Disabled Value Added, Lowest 20% Value Added, AMO (achievement gap), 4-year graduation rate and 5-year graduation rate. The state has not yet determined how it will calculate an overall grade for a given district or charter. Few charters received grades for Gifted Value Added, so IO excluded that category for lack of data. About 100 dropout recovery schools were removed from the mainstream accountability system, so IO will be only using non-dropout recovery schools for comparisons, unless otherwise noted.

<sup>7</sup> It is important to recognize that the money transferred to a charter school comes from a district, not the building the child would have attended in the district. Therefore, the performance comparison in this report looks at the district-level performance because the money is lost by the district, which means kids throughout the district, not just in the poorest performing buildings, lose a share of that funding.

<sup>8</sup> Not all charter schools receive report card grades because they either have not been open long enough, do not contain grades that are tested or are dropout recovery schools. The comparison in this report is between traditional public school districts and charters that receive report card grades. Therefore, not all transfers can be directly compared for performance.

<sup>9</sup> The new report card gives a letter grade for performance index scores. For purposes of this report, IO compared the raw PI scores for specific PI analysis. The grade for the PI scores was included as one of the 8 report card measures examined for this report

8 graded categories, and that encompassed only a single transfer between a single district and one charter school<sup>10</sup>. On the other hand, 63 charter schools (or 24% of those receiving at least one Report Card grade) were outperformed in every category by their feeder districts.<sup>11</sup>

**All told, more than 53% of all children in Ohio’s charter schools came from districts that outperformed the charter. Just 35% hailed from districts where the reverse was true.**

Table 3 shows a comparison of several, well-known charter school “brands.” Note that even the best charter group in the state – Cleveland’s Breakthrough Schools – gets 21% of their transfers from districts that outperform those charters overall, largely attributable to the group’s high-quality reputation.

At the other end of the spectrum, over 93% of transfers into charters operated by the infamous White Hat Management\* come from higher-performing districts.<sup>12</sup>

**Table 3: percentage of transfers to large charter school operations from higher-performing districts, 2012-2013**

Name	# of Schools	# Transfers from Better	# overall Transfers	% from Better
<b>Breakthrough</b>	6	16	76	21.1%
<b>Fordham<sup>13</sup></b>	9	21	48	43.8%
<b>Horizon Academies</b>	14	71	117	60.7%
<b>Constellation</b>	13	74	114	64.9%
<b>Imagine</b>	6	28	37	75.7%
<b>Summit Academies</b>	26	422	511	82.6%
<b>White Hat</b>	19	528	566	93.3%

It’s easy to understand why traditional public school districts are frustrated. On one hand, they’re told that the money they’re losing to charters is justified by “performance.” Students and their parents, it is said, deserve the “choice” of going to a better school.

On the other hand, the vast majority of students they are losing are, in actuality, transferring into schools that are worse according to the state’s own performance measurements.

And all of this has real financial consequences. In **384 out of Ohio’s 612 school districts, every dime lost to charters went to schools whose overall performance was worse than the district on the State Report Card.** Only 17 districts lost less than half of their charter money to worse performing charters.<sup>14</sup>

<sup>10</sup> The transfer was between Oregon City Schools and the Toledo School for the Arts

<sup>11</sup> In both these examples, there are charters that only receive one or two children from better performing traditional public schools, yet they are not included in this figure. Likewise, there are some charters that receive one or two children from poorer performing districts and are not included in the other 100% figure. IO chose to draw a hardline at 100%, while acknowledging that some charters on both ends of the success spectrum are very close to being included in the two categories discussed.

<sup>12</sup> These numbers are for schools in each chain that receive report card grades, not dropout recovery or other schools that do not.

<sup>13</sup> Fordham is a sponsor, not an operator. However, Fordham is one of the better, more respected sponsors in Ohio and has, on its own, closed down its less successful operations.

<sup>14</sup> The totals lost to charters in this chart only include money lost to charters that are rated on either the Report Card or Performance Index Scores. The totals lost to charters may, therefore, be less than the overall totals lost to charter schools as reported on the districts’ 2012-2013 District Payment Reports.

Table 4: Districts that Lose the Most Money to Poorer Performing Charter Schools, 2012-2013<sup>15</sup>

District	\$ to lower performers	Overall \$ Lost	% Lost to poor performers
Toledo City SD	\$44,779,097	\$61,881,755	72.4%
Columbus City SD	\$35,216,379	\$92,318,862	38.1%
Cleveland Municipal SD	\$15,668,638	\$114,761,220	13.7%
Cincinnati City SD	\$14,747,032	\$48,627,793	30.3%
South-Western City SD	\$11,264,312	\$12,965,212	86.9%
Akron City SD	\$10,771,925	\$19,241,382	56.0%
Parma City SD	\$7,170,927	\$8,016,756	89.4%
Groveport Madison Local SD	\$6,433,435	\$7,746,888	83.0%
Youngstown City SD	\$6,398,476	\$19,336,527	33.1%
Canton City SD	\$5,044,872	\$7,165,650	70.4%
Westerville City SD	\$4,628,286	\$4,676,740	99.0%
Springfield City SD	\$4,480,365	\$4,562,025	98.2%
Lorain City SD	\$3,654,496	\$13,092,905	27.9%
Huber Heights City SD	\$3,237,755	\$3,317,930	97.6%
Newark City SD	\$3,025,363	\$3,025,363	100.0%
Elyria City SD	\$2,827,094	\$5,797,120	48.8%
Hamilton City SD	\$2,823,695	\$3,103,359	91.0%
Euclid City SD	\$2,781,806	\$6,585,180	42.2%
Dayton City SD	\$2,662,262	\$39,177,944	6.8%
Northwest Local SD	\$2,570,986	\$3,196,443	80.4%
Reynoldsburg City SD	\$2,430,986	\$2,624,259	92.6%
Middletown City SD	\$2,382,484	\$4,035,527	59.0%
Lakota Local SD	\$2,321,959	\$2,321,959	100.0%
West Clermont Local SD	\$2,026,048	\$2,061,669	98.3%

## Conclusion

While charter schools can play an important role in Ohio's educational mix, both the way they are funded and the strength of their performance are truly concerning. Until the state's funding mechanism is fixed – and true accountability for charters is in place – kids will continue to be the primary victims. Those staying in traditional public schools – over 90% of our school-age population – will be cheated out of receiving the amount of money the state itself says they need. And the majority of those transferring into charters will be trading a better performing school for one that performs worse.

<sup>15</sup> Again, the money likely will be less than the money lost overall because IO is only comparing charter schools that receive report card grades, and many do not. So the total lost in this table will likely be less than what the district's payment report will indicate.

Innovation Ohio believes that “school choice” can no longer be a mindlessly repeated mantra divorced from real world consequences.

Students “choosing” to stay in traditional public schools should not suffer inadequate funding because other students made a different choice.

Public schools and public school administrators should be held to the same level of accountability – regardless of whether their buildings are called “charter” or “traditional.”

Parents should be provided with accurate and up-to-date information concerning the academic performance of the various schools they are considering for their youngsters. Gauzy television ads which seem to promise a free “private school” education should not be allowed to obscure objective facts.

Many states have recognized the issue with shifting money away from traditional public schools to charter schools. Most fund the charter based on how much it costs to educate the child at the charter school because the authorizers for those schools are school districts or public universities. Ohio is one of two states that let non-profits run charter schools. Other states provide a stepped-down funding decrease for districts that lose significant numbers of children and money to charters in order to soften the financial hardship for children in the traditional district.<sup>xi</sup>

In short, most states have recognized the issues inherent in funding charters and have attempted to mitigate them.

Ohio has not.

In short, everyone – students, parents, taxpayers and the public at large – deserves to know the truth about Ohio schools. Only then can intelligent decisions be made and intelligent reforms be instituted. Surely the children who comprise the future of our state merit nothing less.

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i Innovation Ohio. "Unfair Funding – How charter Schools Win & Traditional Schools Lose." Innovation Ohio. Innovation Ohio, 14 Feb. 2013. Web. 06 Feb. 2014. <http://innovationohio.org/2013/02/14/report-unfair-funding-how-charter-schools-win-traditional-schools-lose/>

ii Education First's Paolo DiMaria (a former top official at the Ohio Department of Education) testified as such before an Ohio legislative committee here: <http://studentlearningfirst.ohiohouse.gov/schoolfunding#> the testimony starts on Part 8, starting at 7:30

iii Op. Cit. Innovation Ohio.

iv Innovation Ohio Education Fund. "Analysis: Ohio Charter Schools Spend More on Administration than Traditional Public Schools." InnovationOhio.org. Innovation Ohio, 14 June 2013. Web. 17 Feb. 2014.

v <http://odevax.ode.state.oh.us/htbin/F2011-PASS-WEB-REPORTS.COM?act=Final+%232+%28paid+4%2F27%2F2012%29&irn=045187&county=01+Adams&DISTRICT=TOTAL&passsum=y>

vi Molock, Jeanine. "ODE charter v. Public Cost Analysis." Letter to Jay Arbaugh. 23 Nov. 2012. Scribd. Stephen Dyer, 21 Dec. 2012. Web. 06 Feb. 2014. <http://www.scribd.com/doc/117636074/ODE-charter-v-Public-Cost-Analysis>

vii Ohio Department of Education. "Ohio State Report Card." Ohio State Report Card. Ohio Department of Education, n.d. Web. 17 Apr. 2014. <[http://reportcard.education.ohio.gov/Download%20Data/2012-2013/Financial%20Expenditures/EFM\\_Data.xls](http://reportcard.education.ohio.gov/Download%20Data/2012-2013/Financial%20Expenditures/EFM_Data.xls)>

viii According to the Center for Education Reform, the average U.S. Charter School spends \$8,001 per pupil. According to the ODE expenditure data, Ohio charters spend \$10,778 per pupil. Here is the citation for the CFER data: The Center for Education Reform. "K-12 Facts." The Center for Education Reform. Center for Education Reform, n.d. Web. 18 Apr. 2014. <<http://www.edreform.com/2012/04/k-12-facts/>>

ix Ohio Department of Education. "Ohio State Report Card." Ohio State Report Card. Ohio Department of Education, n.d. Web. 17 Apr. 2014. <[http://reportcard.education.ohio.gov/Download%20Data/2012-2013/Financial%20Expenditures/EFM\\_Data.xls](http://reportcard.education.ohio.gov/Download%20Data/2012-2013/Financial%20Expenditures/EFM_Data.xls)>

x Which is run by David Brennan, who has given millions to politicians since the start of the charter school experiment in 1998. According to Ohio Department of Education and Ohio Auditor of State data, schools run by Brennan's White Hat have received more than \$1 billion in state taxpayer money since 1998, or roughly one out of every 7 taxpayer dollars spent on charter schools since their inception.

xi Shen, Yilan, and Alexander Berger. Charter School Finance. Rep. National Conference of State Legislators, Feb. 2011. Web. 18 Apr. 2014. <<http://www.ncsl.org/documents/educ/charterschoolfinance.pdf>>