



Elected local school boards in Tennessee must approve or deny applications for new taxpayer-funded privately run charter schools.

Under state law, an approved charter school receives funding in an amount equal to the per-pupil state and local funds of the district in which the charter is located.¹

A local school board that denies a charter school application must “specify objective reasons” for its decision — one of which may include a charter school’s fiscal impact on the local school district.

Specifically, state law allows the local school board to consider whether a proposed charter school will have a “substantial negative fiscal impact” on the school district.²

However, the appointed state charter school commission has the authority to overturn local school boards’ decisions regarding negative fiscal impact.

Tennessee’s charter school funding system poses important fiscal issues for county and municipal governments. Any decision to authorize a charter school will trigger additional short- and long-term costs that school districts currently must bear without state assistance.

This policy brief explains those costs, examines the variables affecting them, and lays out recommendations for state and local policymakers to eliminate or mitigate them.

Understanding Fixed Costs

Extensive research explores charter schools’ generally mixed impact on student achievement,

equitable access, segregation, and more. This policy brief takes no position on those issues — or the general merits or drawbacks of charter schools.

Rather, this brief examines a specific question: Do charter schools have a fiscal impact on traditional public schools in Tennessee? More specifically, do public schools have fixed costs that remain after students enroll in charter schools?

The answer: Unequivocally, yes.

First, charter schools necessarily have a fiscal impact on local school districts because Tennessee

law requires that school districts transfer funds to charter schools for each student that a charter school enrolls. The specific per-pupil transfer amount varies by district, but is equal to the total state and local per-pupil expenditures in the district in which the charter is located.

Second, while educating fewer students may reduce some of a school district’s operating costs, many district costs will remain exactly or nearly the same for several years — if not indefinitely — when students enroll in a charter school. The shift in resources, combined with residual costs, led Moody’s Investors Service to conclude that a growing number of districts “face financial stress due to the movement of students to charters.”³

Public school costs that go down or go away when a student enrolls in a charter school are sometimes termed elastic costs. Costs that do not go down — or are relatively inelastic — are called “fixed costs” or, sometimes, “stranded costs.”

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Fixed costs generally include those costs associated with school buildings, transportation, central administration, principals, and schoolwide services and personnel.

Ten percent of a public school's students could, for instance, transfer to charter schools. But the cost of heating, cooling, cleaning, repairing, and maintaining the school building would most likely remain the same. The same is true of the salaries for the principal, librarian, guidance counselor, and other required specialists. And unless all the departing students live on the same street, the buses would run the same route each day.

Teacher Salaries: Elastic or Fixed?

Instructional salaries — which are a major component of school districts' budgets — are more complicated.

Some studies treat teacher salaries as elastic under the assumption that, at some point, student enrollment will decline enough that it is possible for districts and schools to reduce their teaching staff and reassign students.

But studies also indicate that, as a practical matter, districts and schools may not always be able to make these reductions. When they cannot or do not, these theoretically elastic costs become fixed costs for at least some period of years.

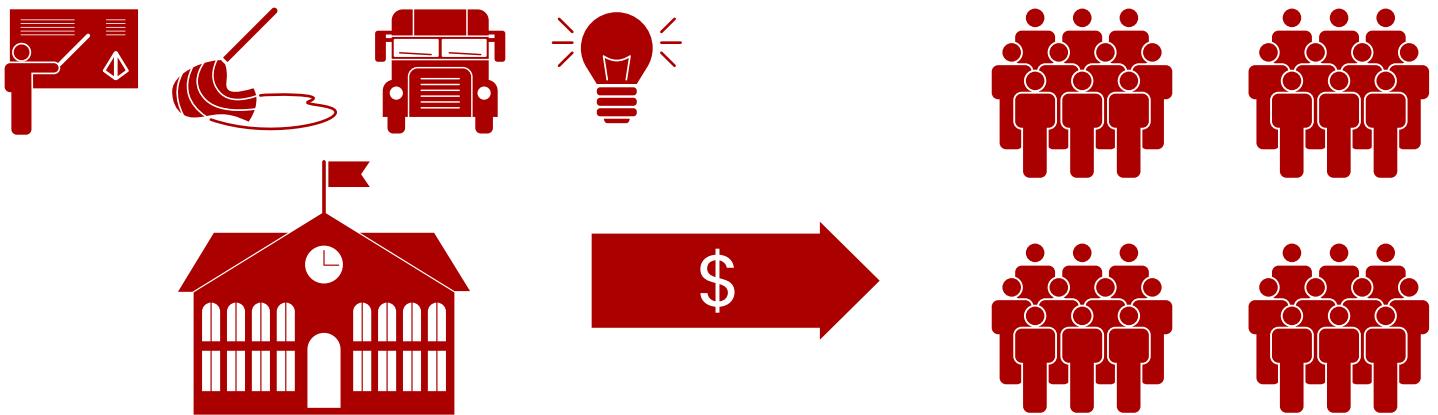
The extent to which teacher salaries fall in the elastic or fixed cost category in a particular school or district depends on a number of factors, including school district size, the rate of charter school growth, the number of students enrolled in charter schools, the grade levels of those students, and geography.

Imagine a public elementary school with 400 students. In Tennessee, such a school would typically have three teachers per grade with 22 students in each teacher's class, for a total of 18 teachers.

The school could lose 40 students to a charter and, thus, 10 percent of its budget, but it would still need all 18 teachers unless it was willing to substantially increase the size of some or all of its classes.

On the other hand, if the school eventually lost more than 130 students, it could eliminate one teacher per grade (though the facility costs and schoolwide services would still remain constant or nearly constant).

Fixed Costs Remain in Public Schools, but Money Follows Students to Charters



If 10 percent of students in a 400-student public elementary school in Tennessee leave for a privately run charter school, the local school district must transfer more than \$3.7 million to the charter.* But fixed costs — such as maintenance, staffing, transportation, and utilities — remain stranded in the public school.

*Based on average district state + local per-pupil funding of \$9,342

Short of that threshold, another option would be to close or consolidate schools.

At some point, cumulative losses could allow a district to reassign some students to a different school and thereby eliminate personnel at one school but not the others. This option, however, would generally be more likely in a large school district with a dense student population and substantial numbers of departures to charter schools.

Further, this option is less feasible in smaller districts, districts with sparse populations (regardless of the district size), and/or districts with smaller numbers of departures to charter schools. Moreover, this option would be subject to the often politically painful process of closing schools in communities and neighborhoods.

Two Options: Cut Services, Increase Revenues

Due to fixed costs, school districts' per-pupil cost of delivering education to the students who remain in a public school increases with each student who enrolls in a charter school.

Given Tennessee's system of funding charter schools, these fixed costs leave a school district with only two options: cut services or increase revenues through increased local-government tax support for public education. The precise size of service cuts or revenue increases will be a function of the magnitude of fixed costs and the elasticity of other costs.

The exact amount of fixed and inelastic costs will vary based on the school district size, population density, existing budget commitments, and whether the district is experiencing student enrollment growth or decline independent of charter schools. Other state-level policies will also affect those variables. Thus, while fixed costs will invariably exist, no uniform percentage for fixed costs applies to all districts.

Prior studies — in states such as New York, North Carolina, and Pennsylvania — indicate that fixed costs will be substantial and can, in some years and locations, exceed far more than half of the amount of transfers to charter schools. Other studies using different methodologies confirm the negative fiscal impact of charter schools, with some variance depending on context.

New York: Fixed Costs Persist — Even After Transitional Aid

A 2014 study examined charter school costs in two districts — Albany and Buffalo — during the 2009-10 school year.⁴



According to researchers:

"These districts have either had to find ways to reduce costs that our analysis treats as fixed or to decrease service levels as a result of charter school enrollments." Roughly one-third of the districts' estimated reductions came from cuts to central administration, facilities operations and maintenance, student services, transportation, and pre-kindergarten programs.

In an attempt to help offset negative fiscal impacts, state government provided transitional funds. However, the state's transitional support only went so far. The study concluded that, when transitional aid phases out, "cuts in fixed costs and service levels will need to become larger."

Nashville Experience

The only available study of fixed costs related to charter schools in Tennessee was conducted by an outside consultant for Metro Nashville Public Schools in 2014.⁵

At the time, enrollment in charter schools in the district was estimated at 5,655. With steep annual growth, the study projected charter school enrollment would approach 14,000 by the 2019-20 school year.

The district's state-mandated reimbursement rate to charters, based on the district's current expenditures at the time, was \$9,070 per-pupil. Conservatively using that rate for all subsequent years, the study estimated that the district would transfer \$65 million to charter schools in 2015-16, with transfers rising to \$98 million annually in 2019-20.

More recent data shows that by the 2022-23 school year, actual charter school enrollment in Nashville

had grown to 15,726 — including state-authorized charters — and the district’s annual transfers to charters exceeded \$231 million.

While the Nashville study projected that the district could potentially make some reductions in teaching staff (or avoid hiring additional ones) to offset the students and revenues transferred to charter schools, it found no facilities cost-savings because almost all school facilities would remain at occupancy levels far too high to warrant closure or reassignment.

The study also found extensive new indirect costs related to technical, human resources, and other services that the district had to provide for charters.

Ultimately, the Nashville study concluded that “new charter schools will, with nearly 100 percent certainty, have a negative fiscal impact” on the district due to the loss of state and local funds, inelastic operational costs, new direct and indirect costs, and the inability

to recoup deferred maintenance costs on facilities leased to charters.

A subsequent self-examination by Metro Nashville Public Schools indicated that 35 percent of the district’s per-pupil costs were inelastic and could not be reduced based on charter school enrollments.⁷

Escalating Per-Pupil Costs

Studies also observe that per-pupil expenditures in public schools actually increase with the departure of charter school students.^{8,9}

This phenomenon, if it occurs, is the mechanical effect of fixed costs being spread over a fewer number of students and/or a district choosing to maintain services even though it has lost students.

In other words, if a district can generate the resources to cover its fixed costs and services after making its payouts to charter schools, per-pupil expenditures necessarily increase even though the overall budget remains flat. Even when a district cuts services and shrinks its budget, per-pupil expenditures may increase due to remaining fixed costs.

Across a period of years, this phenomenon can lead to a vicious cycle of spiraling local-government tax burdens caused by charter school funding systems in states such as Tennessee — where state law mandates that a charter school must receive an amount equal to the per-pupil state and local funds of the district in which the charter is located.

A local school district that chooses to not cut services in Year One of a new charter school opening, or that could not immediately eliminate all fixed costs, would, on paper, have increased per-pupil expenditures. As a result, in Year Two the district would need to make charter school funding transfers based on the higher mechanically inflated rate.

Unless the district makes even deeper cuts to services, this higher transfer would perversely produce yet another increase in the district’s per-pupil expenditures — which could again lead to an even higher per-pupil funding transfer to charters and even larger gaps to fill with each successive year that the pattern continues.

North Carolina: Efficiency & Geography Matter

A 2018 study examining one urban and five non-urban local school districts found that — even with efficiency in reducing teaching and other staff — none of the districts could avoid “sizable negative fiscal externalities of charter schools.”⁶



The study noted fixed costs could substantially increase based in part on the extent to which school districts actually can and do make staffing cuts — which would vary based on where districts are located.

Specifically, the study found that the urban school district’s fixed costs could nearly double based on its potential inability to reduce staff. Meanwhile, in a non-urban district, fixed costs would grow by over 700 percent — amounting to more than half of the district’s local spending per pupil.

Disproportionate Demographics

A final variable affecting the fiscal impact on school districts: Disproportionate student demographics between the district and charter schools.

Low-income students, English language learners, and students with disabilities cost more per-pupil to educate than other students.¹⁰ When a charter school enrolls these student populations at the same rate as the local district, reimbursing charter schools based on the district's average per-pupil expenditure does not impose a unique fiscal burden (beyond those examined above).

However, when the charter under-enrolls disadvantaged student groups, the district's per-pupil costs increase and the charter school's costs decrease.

Studies reveal that charter schools consistently under-enroll students with disabilities and English language learners.^{11,12}

Policy Recommendations

Tennessee's current system of funding charter schools increases the per-pupil cost of educating students who attend public schools and provides districts with even fewer resources to meet those needs.

These increased financial pressures jeopardize school districts' ability to deliver adequate and equitable educational opportunities, particularly in districts that already struggle or lack the capacity to fully meet student needs prior to the introduction of charter schools.¹³

With these realities in mind, state and local policymakers should consider logical steps to mitigate and eliminate these fiscal burdens and educational risks.

Recommendation #1: Any school district that anticipates the possibility of receiving a new charter school application, plans to authorize a new charter school, or will make transfers to existing charters, should, at a minimum, conduct an internal audit to estimate: Short- and long-term fixed costs; elastic costs, including how quickly such costs could be reduced; and how fixed costs and elastic costs will vary based on the percentage of students who might enroll in charter schools.

Pennsylvania: Initial & Long-Term Costs Are Extremely High

A 2017 study found that charter expansion had a significant negative fiscal impact on six local school districts, regardless of district size, in the short term as well as the long term.¹⁴



Researchers noted: "Pennsylvania school districts with growing charter enrollments require substantial additional revenues in order to continue providing roughly the same level of services to their remaining students. This is the case even if districts cut teachers and other staff proportionate with enrollment loss and aggressively close school buildings in response to low capacity."

To maintain services and staff for public school students in the short term, most districts would need 90 percent of the funds they sent to charter schools. After five years, the percentage would decline but, on average, it still would exceed 50 percent.

Additionally, school districts may want to communicate their internal audit findings with relevant state agencies, including but not limited to the state charter commission as well as the state board of education, which articulates the technical review framework that districts use to evaluate charter school applications.

Recommendation #2: The Tennessee General Assembly should adopt new laws to mitigate the negative fiscal impact of charter school funding on school districts — and address concerns about unfunded mandates — through measures such as:

- Reimbursing districts for their fixed costs related to charter schools
- Revising the state's charter school funding system to allow districts to reduce their charter funding rate based on actual fixed costs

- Adopting a hold-harmless provision that excludes from a district’s per-pupil expenditure calculations any increases that result from a district’s decision to maintain services (after making transfers to charter schools)
- Adjusting charter school per-pupil funding from districts downward in any charter that enrolls low-income students, English language learners, or students with disabilities at a lower rate than the district in which they operate

Recommendation #3: While Tennessee’s existing charter law references the “substantial negative fiscal impact” that charter schools have on local

school districts, the General Assembly should quantify what level of negative impact is substantial and, thus, unacceptable.

The charter law’s current lack of certainty allows state officials to overturn local school boards’ denial of charter school applications without accounting for the real and definable negative fiscal impacts of charters.

Tennessee’s charter law should specify and distinguish between the unacceptable cost associated with an individual charter school and the unacceptable cumulative costs of multiple charter schools in a district.

- 1 Allocation of state and local funds, Tennessee Code Annotated 49-13-112.
- 2 Approval or denial of public charter school application by public charter school authorizers, Tennessee Code Annotated 49-13-108(c).
- 3 “Charter Schools Pose Growing Risks for Urban Public School Districts,” Michael D’Arcy and Tiphany Lee-Allen, Moody’s Investors Service, October 15, 2013.
- 4 “Fiscal Impacts of Charter Schools: Lessons from New York,” Robert Bifulco and Randall Reback, Education Finance and Policy, Winter 2014.
- 5 “Charter School Financial Impact Model,” MGT of America, September 11, 2014.
- 6 “The Fiscal Externalities of Charter Schools: Evidence from North Carolina,” Helen F. Ladd and John D. Singleton, National Center for Analysis of Longitudinal Data in Education Research, January 2018.
- 7 “Findings and Recommendation Report of the Executive Director (In Re: KIPP Nashville Primary Charter School Appeal),” Tennessee State Board of Education, October 13, 2015.
- 8 “Fiscal and Education Spillovers from Charter School Expansion,” Matthew Ridley and Camille Terrier, National Bureau of Economic Research, September 2018.
- 9 “The Effects of Charter Proliferation on Public School District Finances,” Mark Weber, Rutgers University Graduate School of Education, 2019.
- 10 “How Much More Does a Disadvantaged Student Cost?,” William D. Duncombe and John Yinger, Syracuse University Center for Policy Research, 2004.
- 11 “Culture Clash: Special Education in Charter Schools,” Robert A. Garda Jr., North Carolina Law Review, 2012.
- 12 “New Jersey Charter Schools: A Data-Driven View,” Mark Weber and Julia Sass Rubin, Rutgers University Graduate School of Education, March 2018.
- 13 “The Real Shame of the Nation: The Causes and Consequences of Interstate Inequity in Public School Investments,” Bruce D. Baker, Mark Weber, Ajay Srikanth, Robert Kim and Michael Atzbi, Rutgers University Graduate School of Education, 2018.
- 14 “The Fiscal Impact of Charter School Expansion: Calculations in Six Pennsylvania School Districts,” David Lapp, Joshua Lin, Erik Dolson and Della Moran, Research for Action, September 2017.

EDITOR’S NOTE: The above-mentioned sources and research studies offer evidence to broadly support the statements and conclusions in this policy brief. Additionally, the Research for Action report (2017) offers a robust compilation of previous academic, governmental, nonprofit, and market research.



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