



# Charter School Funding in New York

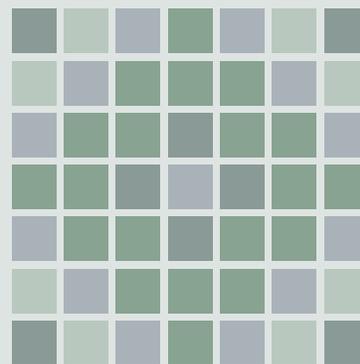
Perspectives on Parity with Traditional Public Schools

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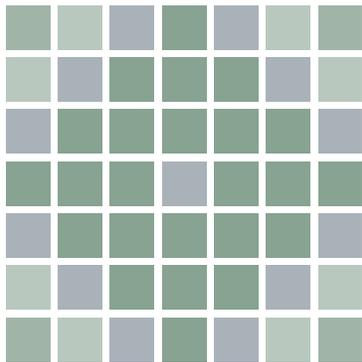
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## I. INTRODUCTION

The New York State Charter Schools Act, passed in 1998, identifies a bundle of resources available to charter schools from a variety of local, state, and federal sources. The Act intends for these resources to provide adequate funding and support for the operation of charter schools. Specific resources include a per pupil payment for general operating support, additional state funding for special education, federal dollars driven by student population (e.g. No Child Left Behind Title I funding), as well as in-kind services from the school district in which the charter school resides.

This bundle of local, state, and federal resources roughly mirrors the funding and support provided to traditional public schools. Yet since the passage of the Act, and since New York State's first five charter schools opened their doors in the fall of 1999, charter school advocates and operators have argued that this funding is insufficient. Specifically, they have maintained that the resources that charter schools receive are less than the resources available to other public schools in the same school district – at times asserting that this discrepancy is as large as 30%.<sup>1</sup> They also claim that lack of parity is a disincentive to future charter school operators.<sup>2</sup>

On the other hand, school districts in New York State have maintained that they are providing all the funding and support that the Act requires and are therefore abiding by the law. In fact, this past year, a bill presented to the state legislature claimed that charter schools are over-funded at the elementary and middle school level and that their funding should be cut by 10%.<sup>3</sup> Thus, while charter school operators argue the lack of parity in resources, school districts argue that charter schools already receive sufficient funding.<sup>4</sup>

This paper explores whether or not funding disparities exist and the magnitude of any such disparities. For the purpose of our paper, we assume that the intent of the Act is to provide charter schools with resources comparable to those of traditional public schools. The paper assumes that a school district's actual expenditure figures, rather than projected budget figures, best represent the resources available to a traditional public school. However, because charter schools are given autonomy to spend their resources as they choose, comparing charter school expenditures to traditional school expenditures would be inappropriate. Therefore, this paper compares school district expenditures – in this case, for New York City – with charter school resources (revenue and in-kind services) for charter schools in New York City. On this basis, parity is achieved when charter school public resources are equal to district expenditures. Although charter schools are eligible to receive private funds, this analysis is limited to parity based on public funding.

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<sup>1</sup> Charter schools are entitled to “one hundred percent” [Article 56, Education Law, section 2856 (1)] of the “expense per pupil,” (McKinney’s Education Law, section 3602) as defined by the AOE/TAPU (Average Operating Expense/Total Allowable Pupil Units). This is not necessarily equal to a district’s per pupil funding. This will be explained in further detail later in the paper.

<sup>2</sup> Personal correspondence, Bill Phillips, New York Charter Schools Association, October 22, 2003.

<sup>3</sup> Prime sponsored bill 04236, Ed.L Charter Schl, apply/admit. Section 7.

<sup>4</sup> Personal correspondence, Bill Phillips, New York Charter Schools Association, October 22, 2003.

We begin our paper with a listing of the public resources available to charter schools in New York State. We then proceed with several comparative analyses for charter and traditional public schools in New York City. First, we compare average charter school resources to the New York City school district's average per pupil expenditure. Second, because New York City district expenditures vary widely by student type (e.g. students with disabilities; elementary, middle, and high school students; and students with special needs such as English Language Learners), we compare charter school resources by student type to the New York City district expenditures for the same students. Third, we briefly examine the impact of lease costs on charter school finances. The paper concludes with a review of recent actions taken by the Chancellor of the New York City Public Schools to ensure that charter schools receive adequate funding.

All analyses rely on data from the New York City Department of Education for fiscal year 2002 (academic year 2001–2002) and compare charter schools to traditional public schools located in New York City. Although the data are New York City specific, the methodology and findings are applicable to other school districts in New York State.

This paper finds that New York City charter schools have fewer public resources than traditional public schools. This funding disparity exists at all educational levels – elementary, middle, and high school – and for students in both general and special education. By identifying the source of these discrepancies, this paper provides legislators and policy makers with evidence and information to correct this disparity and place charter schools on equal financial footing with all other public schools in New York State.

## II. SOURCES OF PUBLIC FUNDING

In fiscal year 2002, charter schools received funding from local, state and federal sources to support general operating and instructional costs. Charter schools also received several in-kind services from the New York City Department of Education. Table 1 details these sources.

TABLE 1

Public Support Available to Charter Schools in New York City, FY02	
Per Capita Funding	Per capita funding is determined by the New York State Education Department (NYSED) and is based on a state formula used for traditional public school districts as well. This formula divides a school district's Approved Operating Expenditure (AOE) by a school district's Total Allowable Pupil Units (TAPU) to estimate that district's average expenditures on an average pupil. The AOE includes most of a school district's instructional and operational expenditures, except for expenditure on food and transportation services, debt service, and expenditures based on state Categorical grants. <sup>5</sup> The TAPU is based on a school district's adjusted average daily attendance and also includes additional weightings for high school and summer school students and for students with special educational needs. As the AOE/TAPU calculation is based on two-year-old data, it is adjusted to reflect two years of statewide changes in education expenditures.
State Excess Cost Aid for Students with Disabilities	Charter schools receive state Excess Cost Aid for serving students whose individual education programs (IEPs) mandate special education services for more than 20% of the day.
Federal Funds	In spring 2001, charter schools in New York State became their own local education agencies (LEA) for the purpose of grants available through the No Child Left Behind Act and thus qualify for Title I under the Federal threshold. This threshold requires that at least 2% of a charter school's student population meet the poverty criteria as specified in the US Census. Charter schools are also eligible to receive Individuals with Disabilities Education Act (IDEA) funds for serving students with disabilities.
In-kind	The Charter Schools Act requires the school district in which a charter school resides to provide some in-kind services to the charter school. Because charter schools are within a school district's LEA for purposes of IDEA, the school district is responsible for providing special education referral and evaluation services. School districts are also required to provide transportation services equal to the services provided to non-public schools, and to administer a charter school's textbook, software, and library purchases based on state funding for these items. In New York City, the school district also provides food services and testing and assessment services in-kind.

<sup>5</sup> State Categorical Aid supports programs for Pupils with Compensatory Educational Need (PCEN), Limited English Proficiency (LEP), Substance Abuse Prevention, Bilingual Education, Welfare Education, Magnet Schools, Comprehensive Instructional Management Systems (CIMS), Minor Maintenance Aid, Universal Pre-kindergarten, Instructional Computer Technology, and Early Grade Class Size Reduction.

### III. FUNDING COMPARISONS

#### SYSTEM-WIDE COMPARISON

Our first analysis compares the average per pupil *expenditure* for students in general education and those receiving part-time special education (PTSE) services (less than 60% of the school day) in a traditional New York City public school to the *resources* available to charter schools for similar students.<sup>6</sup> It is important to note that this comparison assumes that charter schools have a general and part-time special education student population that mirrors the system-wide demographics (see Appendices A & C).

TABLE 2

#### FY02 General Education and Part-time Special Education

	Department of Education Expenditures Per Pupil		Charter School Public Resources
\$5,166	classroom instruction	\$7,006	per pupil allocation
617	instructional support services		
852	leadership and supervision		
			<b>IN-KIND SERVICES</b>
367	food services	367	food services
143	transportation services	143	transportation services
220	ancillary support services	75	textbooks, library supplies, and software
126	CSE referral and evaluation services	126	CSE referral and evaluation services
677	building services		
239	central administration		
18	central instructional support		
337	district superintendency costs		
			<b>OTHER REVENUE</b>
186	debt service	379	Federal Title 1
105	health and welfare benefits	186	per capita share of part-time special ed state excess cost aid and IDEA
4	special commissioner for investigation	169	other Federal revenues available to charter schools
<b>\$9,057</b>		<b>\$8,452</b>	<b>(\$605)</b>

Source: Office of New School Development, New York City Department of Education

<sup>6</sup> The system-wide average that is often cited in comparing charter school and traditional public school funding includes costs associated with full-time special education students. To conduct a more nuanced comparison, we compare charter school resources to the system-wide average for general and part-time special education students and then separately compare charter resources to full-time special education expenditure.

The public school expenditures accounted for in the above categories include classroom instruction, instructional support services, leadership supervision and support, ancillary support services (including food services and transportation), building services, district superintendency costs, central administration, and system-wide obligations (including debt service, which supports capital investments and maintenance of school buildings and property). These expenditures are supported by revenue from city, state, and federal sources. State revenue includes state Categorical Aid, which supports expenditures in a variety of instructional and programmatic areas. It also contains state and city funding to support special education services. The fiscal year 2002 average per pupil expenditure for general and part-time special education students in New York City was \$9,057.

Also depicted in Table 2 is the revenue and in-kind services available to New York City charter schools. As noted, the fiscal year 2002 public per pupil allocation to charter schools in New York City was \$7,006. When the dollar value of in-kind services is added to this figure (for food, transportation, special education evaluation and referral services, and textbook, software and library materials), charter school per pupil resources rise to \$7,717.<sup>7</sup> Finally, when the pro-rated share of state Excess Cost Aid for part-time special education and the system-wide average revenue for Title I and other federal grants are added to this figure, the resources available to charter schools for general and part-time special education rise to \$8,452.

When we compare the average per pupil public funding and in-kind resources of \$8,452 for charter school general and part-time special education students to the average per pupil expenditure of \$9,057 throughout the New York City school system, we identify a discrepancy of \$605. Some of this discrepancy can be attributed to the funds for which charter schools are ineligible. For example, charter schools are not eligible to receive state Categorical Aid, which represents over \$1,000 per pupil of additional resources available to the New York City school district. Also, in fiscal year 2002, the New York City Department of Education spent \$186 per pupil on debt service. These funds were not passed on to charter schools because a school district's debt service is excluded from the AOE/TAPU calculation that determines charter school per pupil funding.

This first analysis indicates that charter schools in New York City – and arguably New York State – do not have financial parity with a school district's average per pupil expenditure for students in general and part-time special education. Some observers note that the difference can be attributed to the school district's administrative expenditures. In the above analysis, if this expenditure is removed from the school district's figures, we see that charter school resources are roughly comparable to the school district's *programmatic* expenditures. But this overlooks that fact that charter schools, as autonomous public schools, still have back office and administrative functions. Furthermore, one of the promises of the charter school model is that with overall financial parity, charter schools will direct more funds into program and fewer into administration.

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<sup>7</sup> In New York City, charter schools also receive in-kind services from Central Administration, such as the services provided by the Office of New Schools Development.

In addition, critics rightly note that such a macro-level analysis does not account for financial variations in student need, such as the different costs associated with educating elementary, middle, or high school students or the cost of educating students who require full-time special education (FTSE) services. We address the issue of different expenditures based on student type by comparing the per pupil expenditures in New York City traditional public schools to the per pupil resources in charter schools for particular student populations. This analysis allows us to adjust one student demographic variable at a time to focus more closely on specific differences in funding between charter and traditional public schools.

### STUDENT LEVEL COMPARISON

Legislation recently introduced in Albany proposes to reduce funding to charter schools on the assumption that charter school resources, particularly for elementary and middle charter schools, is inflated because the revenue calculation, based on school district-wide expenditures, includes high school expenditures.<sup>8</sup> Because high school expenditures are traditionally higher than expenditures in other grade levels, this legislation posited that high school figures increased the average per pupil funding for charter schools, which serve predominately elementary level students. To verify the accuracy of this position, we compare New York City traditional public school expenditures to charter resources through the same methodology as above but with data specific to student level (elementary, middle, and high school) and special education status (see Appendix B for detailed information).

TABLE 3

Analysis by Student Level						
	Elementary General Ed & PTSE	Charter	Middle grades General Ed & PTSE	Charter	High School General Ed & PTSE	Charter
Base Difference	\$9,576	\$8,671 (\$905)	\$8,997	\$8,444 (\$553)	\$8,645	\$8,124 (\$521)
	Elementary FTSE	Charter	Middle Grades FTSE	Charter	High School FTSE	Charter
Base Difference	\$31,662	\$23,994 (\$7,668)	\$23,907	\$19,850 (\$4,057)	\$17,973	\$16,216 (\$1,757)

Source: Department of Financial Management Reporting, New York City Department of Education

Table 3 shows that per pupil expenditures in New York City high schools are lower than the expenditures in middle and elementary schools. This is caused, in part, by state funds for early-grade class size reduction. Moreover, the chart reveals a difference

<sup>8</sup> Prime sponsored bill 04236, Ed.L Charter Schl, apply/admit. Section 7

in funding between charter schools and traditional public schools that ranges from \$500 to almost \$8,000 depending on grade level and special education status. In all instances, charter schools receive fewer resources than traditional public schools. While the difference is greatest at the elementary level and smallest at the high school level, this analysis does not support the contention that charter schools are over-funded at the elementary and middle school level.

These differences are caused, in part, by the charter school per pupil funding formula. As explained in Table I, this formula divides a school district's Approved Operating Expenditure (AOE) by the school district's Total Allowable Pupil Units (TAPU). To control for the typically greater cost of high school students, the TAPU weights high school students by an additional 25%; the implicit assumption here is that high school expenditures are 25% greater than the expenditure on elementary and middle school students.<sup>9</sup> As a result, a school district's expenditures on high school students (whether it is more or less than the elementary level expenditure) are controlled for by the funding formula and not passed on to the charter school.

#### ILLUSTRATION 1

The effect of the charter school funding formula, the "AOE divided by TAPU," as it pertains to high school expenditures can best be explained through the following illustration. Assume a school district has only two students, an elementary school student and a high school student. Also assume that this school district, unlike New York City, spends more for high school students than for elementary school students. The district spends \$10,000 on the elementary student and \$12,500 on the high school student for a total expenditure or "AOE," of \$22,500. The school district's "TAPU" is 1 for the elementary school student. As the TAPU is increased by 25% for high school students, this district's high school TAPU is  $1 + .25$  or 1.25 for a total district TAPU of  $1 + 1.25$  or 2.25.

If a charter school were to open in this school district, the per pupil funding, regardless of the level of the student that the charter school enrolled would be  $\$22,500/2.25$  or \$10,000 per pupil. In this simple example, with all other complicating factors aside, if a charter school enrolls an elementary student, it will receive the "AOE/TAPU" or \$10,000, which is identical to the school district's per pupil elementary school expenditure. If the charter school enrolls a high school student, it still receives only the AOE/TAPU of \$10,000 and as a result is short \$2,500 when compared to the school district's high school expenditures.

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<sup>9</sup> High school expenditures are indeed higher in some school districts throughout New York State, however, as Table 3 illustrates, in New York City, high school expenditure is actually less than elementary and middle schools.

## STATE CATEGORICAL AID

Charter school ineligibility for state Categorical Aid is one cause of the financial disparity between charter schools and traditional public schools. Most of the state’s Categorical Aid is directed to New York State’s largest five school districts, where the majority of charter schools are located. But according to the State Education Department, legal factors render charter schools ineligible for state Categorical Aid allocated for special programs, such as substance abuse prevention programs, for pupils with compensatory educational needs (PCEN), and funding for English language learners. Specifically, the state statute that authorizes state Categorical Aid indicates that only school *districts* are eligible to receive this funding. As charter schools have not been designated as school districts for the purposes of state funds, they are currently not eligible to receive Categorical Aid. Moreover, the statute that created charter schools is silent about state Categorical Aid Funding and, according to statutory legal construction, this omission means that charter schools are not eligible to receive these funds.<sup>10</sup>

For traditional public schools, state Categorical Aid is largely allocated on the basis of student demographics and educational need. Appropriately, this funding varies significantly from school to school. The average categorical funding for traditional schools in New York City is \$1,088 per student (see Appendix D).<sup>11</sup>

It is important to note that even if charter schools were eligible for state Categorical Aid, they would not receive an additional \$1,088 per pupil. As previously stated, Categorical Aid supports specific student needs and varies widely by school; a New York City charter school’s demographics would have to perfectly mirror the New York City school district’s demographics to receive state Categorical Aid that totals \$1,088 per pupil. Furthermore, state Categorical Aid supports activities such as universal pre-kindergarten programs, which charter schools are, by law, ineligible to operate. As Appendix D presents, if we identify only those state Categorical Aid funding categories for which charter schools would be eligible, and if charter school demographics mirrored those of the larger New York City school system, charter schools would receive an additional \$361 per pupil.

TABLE 4

Categorical Aid			
	Traditional Public Schools	Charter School Revenue, Including the Average State Categorical Aid Expenditure	Difference
General and PT Special Ed	\$9,057	\$8,813	(\$244)

Source: Department of Financial Management Reporting, New York City Department of Education

As Table 4 shows, when \$361 is added to the \$8,452 that charter schools receive per pupil for general and part-time special education, charter school resources are still less than traditional public school expenditures.

<sup>10</sup> Personal communication with the Office of Counsel, New York State Education Department, September 8, 2003.

<sup>11</sup> This figure excludes funding for pre-K and magnet programs, which most traditional public schools do not receive.

## FULL-TIME SPECIAL EDUCATION COMPARISON

In New York City, expenditures on students requiring full-time special education services (more than 60% of the school day) in traditional public schools are accounted for in the same expenditure categories as general education and part-time special education students. However, considerably more funds are spent on Committee on Special Education (CSE) evaluation and referral services, transportation, and classroom instruction for students requiring full-time special education services than for students who receive special education services for only part of the day.

School districts support these additional expenditures through federal IDEA funds, state Excess Cost Aid, and local funding. By comparison, the additional resources available to charter schools to educate students requiring full-time special education services include additional IDEA funds, state Excess Cost Aid, and additional in-kind resources from the school district for evaluation, referral, and transportation services. It is important to note that under the current funding formulas mandated by the Charter Schools Act, charter schools do not receive the comparable local funding that a school district receives to educate students requiring full-time special education services.

Table 5 below compares New York City school district expenditures on full-time special education students (excluding expenditure on students with the most severe disabilities) to charter school resources for a similar population (see Appendices A & C).

TABLE 5

FY02 Full-time Special Education (Excluding District 75)			
	Department of Education Expenditures Per Pupil		Charter School Public Resources
\$11,528	classroom instruction	\$7,006	Per pupil allocation
3,615	instructional support services		
1,323	leadership and supervision		IN-KIND SERVICES*
2,134	CSE referral and evaluation services	2,134	CSE referral and evaluation services
378	food services	378	food services
3,972	transportation services	3,972	transportation services
399	ancillary support services	75	textbooks, library and software
718	building services		
426	central administration		
45	central instructional support		
864	district superintendency costs		OTHER REVENUE
191	debt service	379	Federal Title 1
		1,127	IDEA
108	health and welfare benefits	5,423	FY02 per pupil state Excess Cost Aid, full-time special education students
	special commissioner for investigation		
		169	other Federal revenues available to charter schools
<b>\$25,701</b>		<b>\$20,663</b>	<i>(\$5,038)</i>

Source: Office of New School Development, New York City Department of Education

Table 5 shows a large discrepancy – \$5,038 – between the system-wide average expenditure for each full-time special education student and the bundle of resources available to a charter school for the same student.

As in the previous analyses, part of the difference can be attributed to debt service and state Categorical Aid. However, the largest source of the difference is caused by the charter funding formula, which excludes local funding that supports special education expenditure.

## IV. THE CHANCELLOR’S CHANGES

In the spring of 2003, New York City Public Schools Chancellor Joel I. Klein took steps to address the differences in resources available to New York City charter schools as compared to traditional public schools. These actions recognize charter schools as an important option in public education and a potential vehicle for enriching public schooling for all New York City public school students. While these changes only benefit charter schools in New York City, they present policy options that can be adopted by school districts and state lawmakers throughout New York State.

### SPECIAL EDUCATION FUNDING

Many operators of charter schools in New York City contend that they do not have sufficient resources to serve students with disabilities.<sup>12</sup> While all of the analyses above indicate the difference in funding between charter and New York City traditional public schools, the analysis of full-time special education funding is the most dramatic; there is a \$5,038 difference between charter school resources and public school expenditures for full-time special education students. To mitigate this difference, and in order to fulfill the local school district’s Individuals with Disabilities Education Act (IDEA) obligations to charter schools, the New York City Schools Chancellor created a local funding solution in spring 2003.

The Chancellor’s solution requires a detailed understanding of the state’s special education Excess Cost Aid formula as well as its relationship to the charter school funding formula. Table 6 details the elements that go into calculating state Excess Cost Aid, and the following paragraphs explain it in greater detail.

TABLE 6

Excess Cost Aid Calculation for New York City Traditional Public Schools						
	(A) AOE/ TAPU	(B) Pupil Weighting Factor	(C) NYC Wealth Ratio	(D)=(A*B*C) State Excess Cost Aid	(E)=(A*B*(1-C)) Estimated Local Contribution	(D+E) Total NYC Special Ed Support
PT Special Ed	\$6,184	.9	.522	\$2,905	\$2,660	\$5,565
FT Special Ed	\$6,184	1.68	.522	\$5,423	\$4,966	\$10,389

The Excess Cost Aid formula begins with a school district’s average expenditure per pupil (the AOE/TAPU, or “A” above). This figure is multiplied by a weighting factor (“B”) to determine the estimated “excess cost” of serving a student with disabilities in either part-time or full-time special education. For example, the New York City AOE/TAPU was \$6,184 in fiscal year 2002. This figure is then multiplied by .9 to calculate the estimated

<sup>12</sup> Multiple interviews with charter school operators, Charter School Research Team, Institute for Education and Social Policy, Going Charter Research Studies, 1999 – 2003.

additional cost of educating a student requiring special education services for part of the day, and by 1.68 to estimate the additional cost of educating a student who requires full-time special education services. When added to the base AOE/TAPU, these figures estimate that the New York City school district spends an additional \$5,565 for a student in part-time special education and \$10,389 for a student in full-time special education.

State policy envisions that local school districts will share the excess cost of educating students with disabilities. Thus, the state does not fund the full amount of the excess cost. Rather, the state determines the proportion that it will contribute by estimating what it decides the district can “afford” to contribute, relative to what other school districts across the state can afford. This determination of the city-state share is based on a state-calculated average wealth ratio. In fiscal year 2002, New York City had a wealth ratio of .522 (item “C” in table above), meaning that it has been determined to have near average wealth (close to 50%) when compared to other school districts in New York State.

To determine the state’s portion of Excess Cost Aid, the state multiplies the estimated excess cost (.9 or 1.68) by the wealth ratio (.522 in NYC) (in Table 6 “A” x “B” x “C”). As a result, for each part-time special education student in New York City, the state contributes \$2,905 and assumes, via the wealth ratio, that at least \$2,660 will be provided by the school district through local revenue. For each full-time special education student, the local contribution is expected to be even higher: the state contributes \$5,423 in Excess Cost Aid and assumes that the district will spend at least \$4,966 in local funds.

The New York State Charter Schools Act provides charter schools with the same amount of state Excess Cost Aid per pupil that is provided for students in the traditional public schools.<sup>13</sup> Yet the charter school funding formula (the AOE/TAPU) is calculated in such a way that it does not provide charter schools with the local funding for special education that traditional public schools receive. Similar to the additional weighting for high school students, as explained in Illustration 1, the TAPU provides an additional weighting for students receiving special education services to control for the added cost of their education: an additional weighting of .9 for students in part-time special education, and 1.68 for students in full-time special education in fiscal year 2002. As a result of these additional weightings in the TAPU, the state Excess Cost Aid is controlled for in the charter school funding formula, and consequently the per pupil cost of these services is not passed on to charter schools. To compensate, charter schools receive state Excess Cost Aid directly. However, the charter law does not require local districts to provide charter schools with a local contribution. This has a significant impact on New York City’s charter schools.

#### ILLUSTRATION 2

The effect of the charter school funding formula as it pertains to special education can best be explained through the following illustration. Assume a school district’s state Excess Cost Aid is \$4,500 for a student in part-time special

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<sup>13</sup> Article 56, Charter Schools, section 2856; McKinney’s Education Law, section 3602

education and \$8,400 for a student in full-time special education. Also assume that this district has only two students, one receiving part-time and the other receiving full-time special education services. The school district spends \$19,000 on the student in part-time special education and \$26,800 on the student in full-time, for a total expenditure, or AOE of \$45,800. As the TAPU adjusts for these students, the school district's TAPU is 1 + .9 or 1.9 for the student receiving part-time services and 1 + 1.68 for the other. The total TAPU is 4.58. If a charter school were to locate in this district, that charter's funding (AOE/TAPU) would yield \$10,000 per pupil ( $\$45,800/4.58$ ).

In this simple example with all other complicating factors aside, if a charter school enrolls a student requiring part-time special education services, it will receive the AOE/TAPU of \$10,000 plus \$4,500 in State Excess Cost Aid for a total of \$14,500. As a result of the TAPU weightings, the charter school is still short \$4,500 when compared to the school district's expenditures for this student. The missing \$4,500 represents the local school district's share. If the charter school enrolls a student in full-time special education, it also receives the AOE/TAPU of \$10,000 plus an additional \$8,400 in state Excess Cost Aid. For the same reasons, it again is short \$8,500 of the local school district's share.

This problem in the charter school funding formula has deeper implications. As charter schools are part of the LEA of the school district in which they reside for the purposes of IDEA, this lack of local funding undermines a school district's IDEA obligations, particularly if the local school district is not providing special education services at the charter school and if the charter school is expected to provide and pay for these services.

To correct this flaw in the charter school funding formula, the New York City Schools Chancellor adopted a policy to provide charter schools with the local portion of resources required for special education services. The effect of this policy, in fiscal year 2002 dollars, provides an additional \$2,660 and \$4,966 to charter schools that are providing part-time and full-time special education services directly to their students with disabilities ("E" in Table 6).

This new policy helps bring charter schools closer to the citywide average expenditure for students with disabilities in traditional public schools. When pro-rated over all general and part-time special education students (see Appendix C) the benefit of this policy adds an additional \$186 to charter school per pupil resources and decreases the difference between charter resources and traditional public school expenditure to \$419.

TABLE 7

Part-time Special Education Funding			
	Traditional Public Schools Expenditure for a PTSE Student	Charter Schools Resources for a PTSE Student	Difference
Per Pupil General and PT Special Ed	\$9,057	\$8,452 + \$186 = \$8,638	(\$419)

Similarly, the difference between charter resources and traditional public school expenditures almost disappears when additional city funding of \$4,966 is added to charter school resources for students requiring full-time special education services.

TABLE 8

Full-time Special Education Funding			
	Traditional Public Schools Expenditure for a FTSE Student	Charter Schools Resources for a FTSE Student	Difference
Full-time Special Ed	\$25,705	\$20,663+\$4,966= \$25,629	(\$76)

Under the Chancellor’s new policy, New York City charter schools have a roughly equal financial footing with traditional public schools with which to provide special education services directly to their students with disabilities, and the New York City school district is better able to meet its obligations under IDEA.

### LEASED SPACE

The previous analyses examine the funding available to traditional public and charter schools for program operation, and do not include the cost of capital expenses. When school districts lease space for their schools, additional local funds can be directed to meet these costs. By contrast, there is no equivalent funding to charter schools for facilities costs; charter schools’ per pupil resources do not increase when charter schools lease space. Furthermore, the charter school per pupil funding formula does not include the capital expenditures or debt service of the school district – and as a result, the per pupil share of these expenditures is not passed on to charter schools as part of their per pupil resources. Thus, in order to meet their facilities expenses, charter schools have two options: they may use a portion of their per pupil operating revenue, drawing funds away from instruction and directing them toward facilities financing, or they may raise private funds for this purpose.

According to Civic Builders, a nonprofit organization involved in assisting charter schools with their facilities needs, in 2001-2002 charter schools spent an average of \$19 per square foot for their facilities. Civic Builders also found that charter schools directed an average of \$1,600, or 19%, of their per pupil funding towards capital costs.<sup>14</sup> Thus, even if there were parity between charter school operating revenue and traditional public school programmatic expenditures, charter schools would either have to raise, on average, an additional \$1600 per student, or subtract that amount from their overall school program to cover their facilities expenses.

<sup>14</sup> Personal correspondence, David Umansky, Civic Builders, August 19, 2003. These numbers represent the amount that charter schools spend per square foot as well as the amount that they expend in build-out/renovation costs. Conversion charter schools, which often ‘rent’ their buildings from the Department of Education for \$1 a year, are not included in this analysis.

### ILLUSTRATION 3

Assume a school district decides to lease space to meet its facilities needs. The school district spends an average of \$10,000 per pupil on instruction and other programmatic costs. The cost of this lease space is \$2,000 per pupil (\$20 a sq. ft. at 100 sq. ft. per pupil). The school district can either decrease instruction and programmatic expenditures to \$8,000 to meet the new lease costs or the school district and/or municipality can choose to increase overall funding to maintain the same educational program and meet leasing costs, raising average student expenditure to \$12,000. If a charter school receives \$10,000 per pupil in funding and in-kind services, and must take on a \$2,000 per pupil lease, no additional public funds exist to meet the lease cost. If the charter school is to educate and house its students on public revenue only, it must decrease its expenditures on program and instruction to \$8,000 per student.

The New York City Schools Chancellor has sought to address the extra burden of facilities costs by allowing charter schools to occupy New York City Department of Education public school facilities where available, and by providing charter schools with the same start-up funding that new Department of Education schools receive upon opening.

Beginning in the 2003-2004 school year, seven of the 24 operating charter schools will be located in Department of Education buildings, and many more charter schools will be accommodated in the 2004-2005 school year. Charter schools are only expected to pay for their pro-rated share of operating costs, such as utilities, maintenance and security. In most cases, a charter school will be sharing this space with another public school. This initiative will help alleviate charter schools' overwhelming facilities costs.

The Chancellor's policy might impact the charter school landscape in other ways as well. For example, the allure of low-cost space might lead a charter school to locate in a neighborhood where the Department of Education has excess capacity rather than in its desired community, or a charter school might tailor its educational program to ensure that it is of interest to the Department of Education, and thus 'qualifies' for Department space. Regardless, allowing charter schools to locate in existing buildings at minimal cost and providing additional funding to support the start-up phase will certainly help nurture the charter movement in New York City.

## V. CONCLUSION

Charter school funding, when strictly limited to the funds and formulas identified in the New York State Charter Schools Act, provides fewer resources to charter schools when compared to the expenditures of traditional public schools in the same school district. In New York City, the difference between charter school resources and traditional public school expenditures ranges from \$600 to close to \$8,000 per pupil, depending on the student being served. This paper suggests that the difference can largely be attributed to charter schools' ineligibility for state Categorical Aid and local funds for special education. Furthermore, a charter school's facilities costs, and the lack of public funding for this purpose, only exacerbate funding discrepancies.

If charter schools are to have a fair opportunity to provide new, high quality educational alternatives for the public school students of New York State, these differences should be eliminated. The New York City Schools Chancellor's initiatives help narrow the gap between charter school resources and the funds available to traditional public schools. These policies are strong examples of local actions that other New York State school districts can take to support charter schools and stimulate their growth and development.

Regardless of these positive steps, full parity between charter and traditional public schools will not be achieved until charter schools are eligible to receive state Categorical Aid. This eligibility requires state action, through either regulatory or legislative change. Such state action would eliminate the financial barriers that might prevent a charter school from providing a high quality choice in public education, and make the strict accountability terms of charter status – such as revocation of the charter – a function of the quality and implementation of a school's educational program and not of inadequate public funding.

## APPENDIX A

FY02 General Education and Part-time Special Education			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$5,166	classroom instruction	\$7,006	per pupil allocation
617	instructional support services		
852	leadership and supervision		
			<b>IN-KIND SERVICES</b>
367	food services	367	food services
143	transportation services	143	transportation services
220	ancillary support services	75	textbooks, library supplies, and software
126	CSE referral and evaluation services	126	CSE referral and evaluation services
677	building services		
239	central administration		
18	central instructional support		
337	district superintendency costs		
			<b>OTHER REVENUE</b>
186	debt service	379	Federal Title 1**
105	health and welfare benefits	186	per capita share of part-time special education state Excess Cost Aid and IDEA***
4	special commissioner for investigation	169	other Federal revenues available to charter schools****
<b>\$9,057</b>		<b>\$8,452</b>	<b>(\$605)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils.

\*\*\* See analysis in table "Special Education Pro-Rated." Data Provided by NYC Department of Education (DoE).

\*\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

FY02 Full-time Special Education (Excluding District 75)			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$11,528	classroom instruction	\$7,006	per pupil allocation
3,615	instructional support services		
1,323	leadership and supervision		<b>IN-KIND SERVICES*</b>
2,134	CSE referral and evaluation services	2,134	CSE referral and evaluation services
378	food services	378	food services
3,972	transportation services	3,972	transportation services
399	ancillary support services	75	textbooks, library and software
718	building services		
426	central administration		
45	central instructional support		
864	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
		1,127	IDEA
108	health and welfare benefits	5,423	FY02 Per pupil state Excess Cost Aid, full-time special education students
	special commissioner for investigation		
		169	other Federal revenues available to charter schools***
<b>\$25,701</b>		<b>\$20,663</b>	<b>(\$5,038)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils.

\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

## APPENDIX B

FY02 Elementary General Education and Part-time Special Education			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$5,495	classroom instruction	\$7,006	per pupil allocation
578	instructional support services		
794	leadership and supervision		<b>IN-KIND SERVICES</b>
171		171	CSE referral and evaluation services
505	food services	505	food services
179	transportation services	179	transportation services
224	ancillary support services		
		75	textbooks, library supplies, and software
688	building services		
242	central administration		
18	central instructional support		
379	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	186	per capita share of part-time special education state Excess Cost Aid and IDEA***
4	special commissioner for investigation		
		169	other Federal revenues available to charter schools****
<b>\$9,576</b>		<b>\$8,671</b>	<b>(\$905)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils

\*\*\* See analysis in table "Special Education Pro-Rated." Data Provided by NYC Department of Education (DoE).

\*\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

FY02 Elementary Full-time Special Education (Excluding District 75)			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$13,343	classroom instruction	\$7,006	per pupil allocation
4,576	instructional support services		
1,048	leadership and supervision		<b>IN-KIND SERVICES</b>
2,753	CSE referral and evaluation services	2,753	CSE referral and evaluation services
525	food services	525	food services
6,537	transportation services	6,537	transportation services
396	ancillary support services		
		75	textbooks, library supplies, and software
745	building services		
405	central administration		
44	central instructional support		
987	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	1,127	IDEA
4	special commissioner for investigation	5,423	per pupil state Excess Cost Aid for full-time special education students
		169	other Federal revenues available to charter schools***
<b>\$31,662</b>		<b>\$23,994</b>	<b>(\$7,668)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils

\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

## APPENDIX B

FY02 Middle General Education and Part-time Special Education			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$5,163	classroom instruction	\$7,006	per pupil allocation
572	instructional support services		
801	leadership and supervision		<b>IN-KIND SERVICES</b>
143	CSE referral and evaluation services	143	CSE referral and evaluation services
360	food services	360	food services
125	transportation services	125	transportation services
220	ancillary support services		
75	textbooks, library supplies, and software	75	textbooks, library supplies, and software
673	building services		
244	central administration		
20	central instructional support		
373	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	186	per capita share of part-time special education state Excess Cost Aid and IDEA***
4	special commissioner for investigation		
		169	other Federal revenues available to charter schools****
<b>\$8,997</b>		<b>\$8,444</b>	<i>(\$554)</i>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils

\*\*\* See analysis in table "Special Education Pro-Rated." Data Provided by NYC Department of Education (DoE).

\*\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

FY02 Middle Full-time Special Education (Excluding District 75)			
	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$11,199	classroom instruction	\$7,006	per pupil allocation
3,219	instructional support services		
1,052	leadership and supervision		<b>IN-KIND SERVICES</b>
2,050	CSE referral and evaluation services	2,2,050	CSE referral and evaluation services
375	food services	375	food services
3,246	transportation services	6,3,246	transportation services
393	ancillary support services		
75	textbooks, library supplies, and software		
701	building services		
404	central administration		
46	central instructional support		
919	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	1,127	IDEA
4	special commissioner for investigation		
169	other Federal revenues available to charter schools***	5,423	per pupil state Excess Cost Aid for full-time special education students
<b>\$23,907</b>		<b>\$19,850</b>	<i>(\$4,057)</i>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils.

\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

## APPENDIX B

### FY02 High School General Education and Part-time Special Education

	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$4,704	classroom instruction	\$7,006	per pupil allocation
772	instructional support services		
1,070	leadership and supervision		<b>IN-KIND SERVICES</b>
46	CSE referral and evaluation services	46	CSE referral and evaluation services
156	food services	156	food services
106	transportation services	106	transportation services
233	ancillary support services		
75	textbooks, library supplies, and software	75	textbooks, library supplies, and software
714	building services		
249	central administration		
21	central instructional support		
271	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	186	per capita share of part-time special education state Excess Cost Aid and IDEA***
4	special commissioner for investigation		
		169	other Federal revenues available to charter schools****
<b>\$8,997</b>		<b>\$8,124</b>	<b>(\$522)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils

\*\*\* See analysis in table "Special Education Pro-Rated." Data Provided by NYC Department of Education (DoE).

\*\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

### FY02 High School Full-time Special Education (Excluding District 75)

	Department of Education Expenditures Per Pupil*		Charter School Public Resources
\$8,971	classroom instruction	\$7,006	per pupil allocation
2,447	instructional support services		
1,973	leadership and supervision		<b>IN-KIND SERVICES</b>
2,1,252	CSE referral and evaluation services	154	food services
154	food services	631	transportation services
631	transportation services	1,252	CSE referral and evaluation services
405	ancillary support services	75	textbooks, library supplies, and software
685	building services		
474	central administration		
47	central instructional support		
631	district superintendency costs		<b>OTHER REVENUE</b>
191	debt service	379	Federal Title 1**
108	health and welfare benefits	1,127	IDEA
4	special commissioner for investigation	5,423	per pupil state Excess Cost Aid for full-time special education students
169	other Federal revenue eligible to charter***		
<b>\$17,973</b>		<b>\$16,216</b>	<b>(\$1,757)</b>

\* All Department of Education FY02 data provided by the Department's Office of Financial and Management Reporting unless otherwise noted.

\*\* SBER '02 systemwide average per general and special education pupils.

\*\*\* See analysis in Table "Reimbursible Expenditure." Data Provided by NYC DoE Office of Financial and Management Reporting.

## APPENDIX C

FY02 State Excess Cost Aid for Students in Part-time Special Education Pro-rated Over Total Enrollment		
A	1,098,832	total enrollment
B	82,066	students in full-time special education in FY02
C	47,000	approximate number of students in part-time special education in FY02
D	1,016,766	total enrollment less full-time special education (A-B)
E	4.6%	part-time special education as a percentage of total enrollment, excluding full-time (C/D)
F	2,905	FY02 state Excess Cost Aid per pupil
G	1,127	FY02 IDEA per pupil
H	\$4,032	total per pupil support for part-time special education
I	\$186	pro-rated over total general ed and part-time special education enrollment (H*E)
J	\$2,905	$(6,184 \cdot .522 \cdot .9)$ part-time state excess cost aid
K	\$5,423	$(6,184 \cdot .522 \cdot 1.68)$ full time state excess cost aid
L	\$2,660	$(6,184 \cdot (1 - .522) \cdot .9)$ city add'l special education part-time funding if implemented in FY02
M	\$4,966	$(6,184 \cdot (1 - .522) \cdot 1.68)$ city add'l special education full-time funding if implemented in FY02
N	\$186	part-time state Excess Cost Aid pro-rated over total general ed and part-time special ed enrollment $((I+G) \cdot E)$
O	\$175	part-time city additional funding pro-rated over total general ed and part-time special ed enrollment $((L+G) \cdot E)$

## APPENDIX D

### FY02 Reimbursable Expenditures

	2002 Expenditures	Enrollment 1098832 % of Total Pub Sch Exp		Charter Eligible		Exc Title 1	
<b>Federal Grants</b>			<b>7.9%</b>	<b>5.3%</b>			<b>1.6%</b>
Title 2	7,016,395	6	0.8%	6	7,016,395		
Title 1	435,300,276	396	47.0%	396	435,300,276		
Vocational and Applied Technology (VATEA)	12,317,882	11	1.3%	N/A	N/A		
Title VI	10,830,059	10	1.2%	10	10,830,059		
Federal Magnet Grant	11,135,228	10	1.2%	N/A	N/A		
Emergency Immigrant Education Assistance Pgm	15,232,459	14	1.6%	14	15,232,459		
Federal Substance Abuse Prevention Program	18,698,210	17	2.0%	17	18,698,210		
Individuals With Disabilities Act (IDEA)	127,566,235	116	13.8%	N/A	N/A		
Federal Bilingual Program (Title 7)	19,358,827	18	2.1%	18	19,358,827		
Other Federal Grants	75,988,611	69	8.2%	N/A	N/A		
Early Grade Class Size Reduction: Federal	78,638,389	72	8.5%	72	78,638,389		
Summer Feeding Program	28,915,848	26	3.1%	N/A	N/A		
Technology: TitleIII/Universal Service Fund	36,097,544	33	3.9%	33	36,097,544		
Disaster Relief (World Trade Center): Federal	3,341,935	3	0.4%	N/A	N/A		
Other Miscellaneous	39,648,023	36	4.3%	N/A	N/A		
Federal / State School Lunch	6,969,283	6	0.8%	N/A	N/A		
	<b>927,055,202</b>	<b>844</b>	<b>100.0%</b>	<b>565</b>	<b>621,172,157</b>	<b>169</b>	<b>185,871,882</b>
				inc title 1	incl title 1	exc title 1	exc title 1
<b>State Grants</b>	<b>10.2%</b>	<b>6.3%</b>					
Capital Projects	13,447,435	12	1.1%	N/A	N/A		
State Legislative Grant	1,145,353	1	0.1%	N/A	N/A		
Teacher Support Aid (formerly EIT)	62,707,365	57	5.2%	57	62,707,365		
Mandated Summer Program (Ch. 683)	83,688,097	76	7.0%	N/A	N/A		
State Substance Abuse Prevention Program	25,223,656	23	2.1%	23	25,223,656		
State Incentive Grant*	45,025,142	41	3.8%	N/A	N/A		
State Reading Program*	33,139,459	30	2.8%	N/A	N/A		
Educationally Related Support Services (ERSS)	39,962,283	36	3.3%	36	39,962,283		
State Magnet Grant	49,411,372	45	4.1%	N/A	N/A		
State Bilingual Program	52,071,958	47	4.4%	47	52,071,958		
Other State Grants	65,719,589	60	5.5%	N/A	N/A		
Attendance Improvement/Dropout Prevention	66,344,182	60	5.6%	60	66,344,182		
Employment Prep Education	26,211,387	24	2.2%	N/A	N/A		
State Operating Standards Aid	31,534,155	29	2.6%	29	31,534,155		
State Pre-K/Superstart/Universal PreK	162,507,953	148	13.6%	N/A	N/A		
PCEN*	261,021,329	238	21.8%	N/A	N/A		
Early Grade Class Size Reduction: State	118,954,594	108	10.0%	108	118,954,594		
Superstart Plus	9,890,917	9	0.8%	N/A	N/A		
Other Miscellaneous	39,648,023	36	3.3%	N/A	N/A		
Disaster Relief (World Trade Center): State & Other	500,000	1	0.0%	N/A	N/A		
Federal / State School Lunch	6,969,283	6	0.6%	N/A	N/A		
	<b>1,195,123,530</b>	<b>1,088</b>	<b>100.0%</b>	<b>361</b>	<b>396,798,193</b>		
<b>Private &amp; Other Grants</b>			<b>0.4%</b>				
Building Code Maintenance	5,000,000	5		N/A	N/A		
Self-Sustaining Accounts	8,087,385	7		N/A	N/A		
Private Grants	8,996,779	8		N/A	N/A		
City Funded Programs	13,600,564	12		N/A	N/A		
Disaster Relief (World Trade Center): State & Other		14,040,120	13	N/A	N/A		
	<b>49,724,847</b>	<b>45</b>					
<b>Public school categorical</b>	<b>2,171,903,579</b>	<b>1,977</b>	<b>18.5%</b>				
<b>Total public school</b>	<b>11,751,026,371</b>						

\*If charter schools were to be eligible for Categorical Funds, they would not immediately be eligible for the State Incentive Grant, the State Reading Program Funds or funding for Pupils with Compensatory Educational Need. Expenditure based on these three Categorical is included in the AOE/TAPU and consequently a system-wide per pupil average of these funds is passed onto charter schools.

## **REPORTS AND PAPERS ON OUR CHARTER SCHOOL RESEARCH**

*Standards-Based Reform and the Charter School Movement, 1998-99 – 1999*

*Charter School Listserv: An Analysis of an Electronic Charter School Discussion Group – 1999*

*Going Charter: Lessons from Two First-Year Studies – 2000*

*Going Charter: New Models of Support – 2001*

*Opportunity to Learn in Urban Charter Schools: A Conceptual Framework – 2002*

*The Paradox of Support: Charter Schools and their Institutional Partners – 2002*

*Reflections on Charter School Autonomy: The Case of New York – 2002*

*The Role of Partnering Organizations in New York City Charter Schools – 2002*

*Charter School Accountability in New York – 2003*

*Governance and Administrative Infrastructure in New York City Charter Schools – 2003*

*Untangling the Systemic Effects of Charter Schools in New York City – 2003*

*The Finance Gap: Charter Schools and their Facilities – 2004*

*Private Partners and the Evolution of Learning Communities in Charter Schools – 2004*



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