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Overview of Charter School Proposals

LEGISLATIVE ANALYST'S OFFICE

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On Education
Hon. Marty Block, Chair





Charter Schools in California



Charter Schools Are Part of the Public School System but Operate With Considerable Autonomy

- Charter schools are established by a local petition signed by the families of students interested in attending or teachers interested in working at the proposed school.
- Charter schools are exempt from most parts of the state Education Code. Most charter school activities are governed by the terms of their local charter.
- All charter schools receive oversight from an authorizer, which is usually the school district where the charter school is located. The authorizer may close a charter school that fails to meet the terms of its charter.
- Charter schools must adhere to certain basic requirements that include: (1) providing nonsectarian instruction, (2) refraining from charging tuition, and (3) admitting all California students up to school capacity.



The Number of Charter Schools Has Grown Rapidly in Recent Years

- Number of schools has increased about 10 percent per year over the past decade.
- In 2011-12, there were 1,018 charter schools serving 438,000 students (about 7 percent of the state's K-12 enrollment).



Charter Schools Can Be Conversions of Existing Public Schools or New Startup Schools

- About 20 percent of charter schools are conversions.
- About 80 percent of charter schools are startups.



Charter Schools in California *(Continued)*



Charter Schools Offer Two General Modes of Instruction

- A classroom-based charter school has at least 80 percent of its instructional time take place in a traditional school site under the immediate supervision of a credentialed teacher.
- A nonclassroom-based charter school conducts at least 20 percent of its instruction through various forms of independent study (such as distance learning or home study).
- Of the 1,018 charter schools in California, roughly 75 percent are classroom-based and roughly 25 percent are nonclassroom-based.



Charter School Funding



Charter Schools Receive Funding From Three Major Sources

- **General Purpose Entitlements.** Unrestricted funding of about \$5,700 per student provided in lieu of the revenue limit funding school districts receive.
- **Categorical Block Grant.** Unrestricted funding of about \$400 per student provided in lieu of certain categorical programs that school districts apply for separately.
- **Other Categorical Funding.** Restricted funding charter schools receive if they participate in various other programs. (Since 2009, some of this funding has become unrestricted.)



On Average, Charter Schools Receive About \$400 Less Per Student (7 Percent Less) Than Their School District Peers

- This difference is primarily due to funding in the categorical block grant and other categorical funding falling below the funding provided to school districts.



Governor's Proposed Funding Formula Would Affect Charter School Funding

- The Governor's proposed Local Control Funding Formula (LCFF) would eliminate the existing charter school funding structure and establish a new funding mechanism for both school districts and charter schools.
- When fully implemented, the LCFF would provide the same per-pupil base rates to school districts and charter schools. It also would provide the same supplemental rates for English learners and low-income students. (The charter school's per-pupil concentration grant could not exceed the per-pupil amount provided to the district where the charter school is located.)



Charter School Funding

(Continued)



Charter Schools Receive Limited Funding for Facilities

- Charter schools are unable to authorize local bonds for school facilities.
- Charter schools lack legal tools, such as eminent domain and exemption from zoning requirements, that school districts sometimes use to help them in providing facilities.
- Some charter schools can access grant funding for facility costs.



Funding for Nonclassroom-Based Charter Schools



Background

- Nonclassroom-based charter schools must apply to the State Board of Education (SBE) for a funding determination every two to five years.
- To receive full funding, a nonclassroom-based charter school must: (1) spend at least 80 percent of its budget on instruction and instruction-related services, (2) spend at least 40 percent of its budget on certificated staff salary and benefits, and (3) maintain a student teacher ratio of 25-1 (or the ratio of the largest school unified district in the county, whichever is higher).
- Schools can apply for “mitigating circumstances” if they are unable to meet thresholds.
- Most schools receive 100 percent funding. In 2011-12, the funding determination resulted in 11 schools receiving 85 percent of their full funding level (out of about 250 nonclassroom-based charter schools).



Governor’s Proposal

- Eliminates requirement to receive a funding determination every two to five years. Instead, schools would only need a determination in their first and third years. In future years, schools would only need a new determination in limited circumstances. (For example, if an audit identified a problem with the charter school’s finances.)



Funding for Nonclassroom-Based Charter Schools

(Continued)



Concerns With Existing Process

- Personnel-related requirements restrict program flexibility. For example, some schools might want to allocate additional funds to instructional technology.
- Significant penalties are imposed for small changes in spending. A school spending 79 percent of its budget on instructional activities receives 15 percent less funding than a school spending 81 percent on those activities.
- How mitigating circumstances are to effect a school's final funding determination is unclear.



Concerns With Governor's Proposal

- Does not address problems with existing funding determination process.
- Charter school operations may change significantly after three years.



Reject Governor's Proposal

- Continue requiring a funding determination every two to five years.



Refine Existing Funding Determination Process

- Eliminate the requirements related to certificated staff salary and student-teacher ratio (but retain the instruction-related expenditure requirement).
- Provide general guidelines for the types of mitigating circumstances that will be accepted.
- Established graduated funding reductions, such that a charter school's funding reduction is proportional to the extent it misses the spending threshold.



Charter School Facility Grant Program (FGP)



Background

- The FGP provides facility funding for charter schools serving a high concentration of low-income students.
- Qualifying schools can receive up to \$750 per unit of average daily attendance (ADA) or 75 percent of facility costs, whichever is lower.
- The ADA generated through independent study—known as nonclassroom-based ADA—is ineligible to generate any funding.
- In 2012-13, \$92 million was appropriated for the program, which represents the final year of a planned increase in funding established by the Legislature five years ago.



Governor's Proposal

- Allows all types of ADA—both classroom and nonclassroom-based—to generate funding for the FGP.
- Provides that nonclassroom-based schools may only receive funding for the portion of their facilities used for direct student instruction or instructional support.
- Allows initial funding to be released based on prior-year data and current-year estimates and requires a portion of funding be released annually by August 31. (Current law requires a portion of funding be released by October 1.) Over the year, funding would be adjusted to reflect actual cost data.



Adopt Governor's Basic Approach to Expanding FGP . . .

- Due to the significant increase in funding in recent years, funding is likely available to expand the FGP as the Governor proposes.
- The Governor's proposal is a reasonable way to expand the FGP since many nonclassroom-based charter schools have notable facility costs. (Consistent with current law, only nonclassroom-based schools serving low-income areas would be eligible for funding.)



Charter School FGP

(Continued)



. . . But Consider Alternatives to Proposed Formula

- The Governor's proposal to distinguish instructional space from noninstructional space would complicate the application process. (These distinctions are not required under current law.) For example, it is unclear if a principal's office or multi-purpose room would count as qualifying space. Additional time and documentation would be required to make these determinations.
- As an alternative approach, the Legislature could allow nonclassroom-based schools to receive funding for all facility space (consistent with the policy for classroom-based schools) but set a lower funding rate for nonclassroom-based ADA. (Rough estimates of average facility spending based on data reported to the state suggest nonclassroom-based schools spend about \$425 per ADA.)
- Recommend collecting additional information regarding nonclassroom-based charter schools' instructional programs as part of the FGP application process. Such data, along with the expenditure data schools submit to receive FGP, could help the Legislature develop a more refined cost-based approach in the future.



Adopt Governor's Approach for Earlier Release of Funds . . .

- Use of prior-year data and current-year estimates would permit earlier release of funds.
- Charter schools likely need to make lease payments during the first part of the fiscal year.



. . . But Establish Specific Payment Schedule in Statute

- Recommend the Legislature require the release of 50 percent of FGP funding by the end of August, 25 percent by the end of February, and 25 percent by the end of July following the close of the fiscal year.



Transfer Administration of Two Programs



Background

- The FGP provides facility funding to charter schools serving high numbers of low-income students.
- The Charter School Revolving Loan Fund (RLF) provides low-interest loans to new charter schools for startup costs.
- The FGP and RLF are administered by the California Department of Education (CDE).
- The state has four other programs that provide facility assistance or loans to charter schools. These programs are administered by the California School Finance Authority (CSFA) within the Treasurer's Office.



Governor's Proposal

- Transfers administration of FGP and RLF from CDE to CSFA.



Recommend Adopting Governor's Proposal to Transfer Programs to CSFA

- The FGP and RLF are similar to other programs administered by CSFA. (The FGP also shares a funding cap with another program administered by CSFA.)
- The CSFA has been successful running its four programs.



School District Surplus Property



Background

- State law establishes procedures for school districts to sell or lease surplus property.
- In 2012-13, charter schools have first call on school district surplus property designed for instructional use. Charter schools are allowed to purchase surplus property at the school district's cost of acquisition, adjusted for inflation and the cost of construction on the site. The price may be below market value, but must be at least 25 percent of market value. Property must be used by a charter school for instructional purposes for at least five years. After five years, property may be used for any purpose or sold to another entity. These provisions expire on June 30, 2013.
- Proceeds from the sale of surplus property are restricted. Regardless of whether a charter school or another entity purchases the surplus property, a school district must use proceeds for capital outlay or maintenance. A school district with no major deferred maintenance requirements can use proceeds for one-time general operating expenses if it agrees to forfeit eligibility for state construction and modernization funding for at least five years.
- Legislation adopted in 2009 established an exception for property purchased entirely with local funds. The law permits school district selling this type of surplus property to use proceeds for one-time general operating expenses without forfeiting eligibility for construction and modernization funds. This provision expires on January 1, 2014.



Governor's Proposal

- Extends for five years the requirement to offer surplus property to charter schools.
- Permanently extends the exception for use of proceeds purchased with local funds.



School District Surplus Property (Continued)

Adopt Governor's Proposal to Provide Charter Schools First Call on Surplus Property. . .

- Increases the likelihood that school facilities will continue to be used for educational purposes and offers a way to help charter schools meet facility needs.
- Absence of any requirements on the use of property after initial five-year period could result in a charter school eventually selling the property at a much higher price than it paid to receive the property from the school district.

. . . But Modify in the Following Ways:

- Require the charter school to use the purchased or leased property continuously for instructional activities or support.
- Require that before the property may be sold or used for any other purpose, it must be offered for sale or lease to the school district that provided the property, followed by any interested charter schools.
- Limit the price paid by a school district using an approach similar to the one governing purchases by a charter school (the price may not exceed the cost of acquisition, adjusted for inflation and construction).
- Require charter schools to use proceeds from the sale or lease of surplus property for capital outlay or maintenance costs.
- Require charter schools to maintain compliance with the Field Act (standards for earthquake resistant buildings) for property that is compliant when the charter school takes possession.



School District Surplus Property *(Continued)*



Reject Governor's Proposal to Make Permanent Certain Exceptions for Use of Proceeds From Surplus Property Sales

- A district could sell a facility, use the proceeds for one-time operating expenses, and then later apply for and receive the same amount of state facility funding for which it otherwise would have qualified.



Delegation of State Board Oversight



Background

- The SBE authorizes 33 charter schools that have (1) successfully appealed a local decision to deny their charter petition or (2) met the criteria to operate on a statewide basis.
- Existing law allows SBE to delegate the oversight of these charter schools to CDE or to a school district or county office of education in the county where the charter school is located.
- Currently, all oversight responsibilities are delegated to CDE.



Governor's Proposal

- Allows SBE to delegate oversight to any school district or county office of education in the state. (Retains the option for SBE to continue delegating oversight responsibilities to CDE.)



Recommend Adopting Governor's Proposal

- For charter schools located in smaller counties, the options for delegating oversight within the county may be very limited.
- Allowing SBE to delegate beyond the county boundaries could improve the prospects for quality oversight.



Petitions for Countywide Charter Schools



Background

- Most charter schools in California are authorized and monitored by the school district in which they reside and are prohibited from operating outside the jurisdiction of that district.
- If a charter school organization is able to demonstrate that it cannot accomplish its educational mission if limited to a single district, it may apply for recognition as a countywide or statewide charter school.
- When a statewide charter school establishes multiple sites, each site is tracked as a separate school. For example, the state gives each site a separate accountability score.
- When a countywide charter school establishes multiple sites, the sites are tracked collectively. For example, a countywide charter school receives one accountability score from the state.



Governor's Proposal

- Allows countywide charter schools, with the consent of their authorizer, to establish sites as individual schools (similar to the current practice for statewide charter schools).



Recommend Adopting Governor's Proposal

- Although countywide charter schools are operated by a single entity, individual sites may serve different grade spans or student populations. In these cases, it is reasonable to track the sites as separate schools.
- A few programs—notably the federally funded charter school startup grant—require sites to be established as separate schools to qualify for funding.