

How to House and Pay for the Local Charter School

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By Robert Holland

Executive Summary

Charter schools are one of the hottest innovations in American education. Led by independent operators who promise to deliver results in return for exemption from bureaucratic rules, they are injecting needed choice and competition into public education.

The biggest hurdle many charter organizers face is finding a home for the school and figuring out how to pay for it. Many school districts do not cut charter schools in on available capital funds. And financing a building can be difficult because investors fear the uncertainty of a charter that can be revoked.

But charter-school leaders are finding many ways to solve the housing problem, often in ways that give the charters more flexibility in their teaching resources than regular schools enjoy. This paper examines practices that may offer guidance to those starting new schools. For example, charter schools have found homes in museums, YMCAs, restored schoolhouses, and even in a moviehouse. And some have formed productive partnerships with businesses.

Given a per-pupil allotment for facilities, some schools have found they can lease or fix up space on a pay-as-you-go basis. Others have had to finance at least part of the costs, but there are a variety of options for doing so.

Solutions to charter schools' physical needs are limited only by the imaginations of charter-school entrepreneurs. And they have shown with their diverse classroom offerings appealing to many needs and tastes that they have ingenuity aplenty.

Foreword

By Representative Matt Salmon

One of the most promising developments in American public education is the emergence of the charter school. As the 1990s began, charter schools did not exist. As the 1990s draw to a close, more than three dozen states have passed laws permitting the organization of these innovative schools, and 1,700 charter schools are up and running this fall. My home state of Arizona has become a national leader in this movement, with more than 300 charter schools now in operation.

Teachers, parents, and other citizens can seek charters to open their own schools offering approaches ranging from the traditional to the progressive. They have to abide by basic health, safety, and non-discrimination laws but they are freed from many bureaucratic regulations in exchange for their commitment that they will be accountable for producing academic results. The existence of charter schools brings needed choice and competition to public education.

One of the tough problems charter entrepreneurs face is finding suitable facilities for their innovative schools. In the study you have in hand, the Lexington Institute examines how charter leaders are addressing that problem across the land and provides valuable sources of information for those organizing new charter schools.

The study is a service to the cause of expanded educational opportunities. I commend it to you.

Representative Salmon represents Arizona's First Congressional District.

HOW TO HOUSE AND PAY FOR THE LOCAL CHARTER SCHOOL

By Robert Holland

Charter schools are bringing good old Yankee ingenuity back to communities across the nation.

Groups of parents and/or teachers can organize their own schools and seek a charter. Museums, businesses, or universities can sponsor charter schools. Approaches range from traditional to progressive, applied learning to classical learning.

At their best, charter schools bring choice to an area of American life that has delivered mainly orthodox fare. A few charters have failed, but that's a necessary risk in a free market. Many more have thrived.

Charter schools are the hottest innovation in U.S. public education. In 1991, Minnesota pioneered by passing the first charter school law. As classes began this fall for the 1999-00 school year, there were more than 1,700 charter schools operating across the country.

Minnesota is still a leader in the charter-school movement, as are states like Michigan, Texas, Colorado, and California. But no state surpasses Arizona in embracing the charter concept and using it to advance the ideal of a free market in education.

The first charter school opened in Arizona in 1994. That number has quickly grown to more than 300. One of every six public schools in Arizona is now a charter school, and that is likely to become one in four within a few years.

Nationally, charter schools enjoy bipartisan support, even though they encounter much resistance from vested interests like the National Education Association. President Clinton has called for a modest increase in federal appropriations for three-year startup grants for charter schools -- from \$100 million to \$130 million. Republican congressional leaders have indicated they might find more money for charter schools as part of a strategy to loosen federal controls and energize local initiative in education.

Getting Started

Charter-school organizers must meet certain conditions. Their schools must be tuition-free and open to all comers. They must abide by health, safety, and non-discrimination laws. They must present an educational plan for pupils to the chartering authority (be it a state or local education board or special chartering authority) and agree to be accountable for academic results.

If the charter school doesn't rise to acceptable standards, the authority can revoke its charter and put it out of business. That's a level of accountability not many other public schools have.

As formidable as those challenges, are, however, there is one that, according to many charter operators, surpasses all others: Finding adequate housing for the school -- and paying for it.

A study done for the Charter Friends National Network, headquartered in St. Paul, MN, summarized four basic problems:

1. In many localities, there are few suitable facilities.
2. While a district's schools usually have special funding streams to meet capital needs, charter schools have to pay for facilities out of their regular operating funds.
3. Typically, charter schools can't take advantage of low-cost financing that's available to the regular schools through tax-exempt bonding authorities.
4. Lenders, investors, and property owners not uncommonly look on charter schools as "high risk" operations, and either charge them a premium or refuse to do business with them.

(The Charter Friends National Network, an organization formed in 1997 to assist the burgeoning charter movement in a variety of ways, has published helpful reports with specific suggestions on how charter schools can find adequate housing and pay for it. One of the most detailed studies is *Out of the Box: Facilities Financing Ideas for Charter Schools*. It is largely the work of Bryan Hassel, co-founder of Public Impact (a North

Carolina-based education policy consulting firm), and it can be found on the World Wide Web at www.charterfriends.org/outofbox.html , or by calling 651-649-5479. Some of the examples used in this study are drawn, with our appreciation, from the Charter Friends information base.

(Another good source of information is the Charter School Resource Center maintained by the Pioneer Institute for Public Policy Research, located in Boston and on the Web at www.pioneerinstitute.org. Among other good works, the institute has published The Massachusetts Charter School Handbook for the use of those interested in starting a school).

Finding a Home

In the face of obstacles such as those described above, many charter entrepreneurs have been as creative with housing as they are with approaches to learning. One respondent to our e-mail survey pooh-poohed the idea that many charters are in "ramshackle" facilities. Teachers are, after all, the school -- not fancy buildings. This former college and high school teacher, L. Swilley of Houston, noted that one of that community's finest charter schools occupies a number of temporary box-car-like classrooms distributed over the parking lot of a former mall in a ghetto area. The principal, himself one of the teachers, has one secretary; the school operates from 7:30 a.m. to 5:30 p.m. Monday through Saturday for students whose only requirement for admission is that they are willing to learn.

"There is no gym; the students exercise in a fenced area around the buildings. The wealthy have found out about this school and are now clawing at the doors to get their kids in."

Indeed, charter operators have converted many kinds of buildings into serviceable schoolhouses. In some cases they have convinced property owners to let them use space at a reduced rate or to donate it outright. They have found that existing community facilities -- parks, museums, YMCAs, businesses -- often are available for use on a cooperative basis.

Examples abound of charter organizers' resourcefulness in finding a home. Consider, for instance, the remarkable odyssey of New Century Charter School in Carrboro, N.C., which opened in the fall of 1998.

When plans to use an existing building fell through in the summer of '98, New Century's leaders dealt with the crisis by making arrangements to use a local movie theater temporarily. (It helped that the theater owner was a former English teacher.) The theater had the advantage of a built-in screen for overhead projection, and the staff was able to design lapboards for students to work on while in their seats. The major disadvantage was having to set up and tear down the school each day to make

way for movie patrons. On winter break, New Century moved from the theater to a nightclub at a local motel, which would be home for a month while the search for a permanent home continued. Finally, space became available in a 1930s schoolhouse that had been abandoned before being renovated for use as artists' studios and a community center. In February 1999, New Century moved into its permanent home, after persevering through five temporary or potential sites in two years.

In Arizona, the Goldwater Institute's Center for Market-Based Education (www.cmbe.org) features outstanding charter schools in its online newsletter, *The Bellwether*. It calls one of the charter schools opening this fall -- Summit Elementary on the Park - "A Downtown Jewel."

"The school," reports the Center, "is nestled in an old building that surrounds a lovely courtyard with large trees and abundant vines clinging to the walls. While workmen are still busy transforming offices to classrooms, the staff is ready to implement an innovative curriculum."

Summit shows how charter schools can make use of existing community resources. The school is located adjacent to a park. A brisk walk across the park brings students and teachers to The Phoenix Center for Community Arts, which will provide art classes for the charter school. Other nearby educational resources are the Phoenix Public Library, the Art Museum, and the Cookie Company Theater.

Charter Friends describes other charter schools that have practically redefined the meaning of "school" in the process of securing space. Here's a good example:

City on a Hill Charter School in Boston, MA has its home in a YMCA adjacent to Northeastern University. The school rents space from the YMCA and has expanded this space every year while putting in \$2,000,000 for renovations. Not only has the YMCA been a good place to hold classes, City on a Hill also has a programmatic partnership with the Y. It is able to utilize the YMCA's gymnasium, after-school programs, and other facilities. The proximity to Northeastern University also offers some wonderful benefits to City on a Hill. As adjunct faculty at Northeastern, City on a Hill teachers have access to the university's parking spaces, library, recreational facilities, and other amenities.

Seniors are eligible to take classes at Northeastern and teachers can bring students to the library to use the Internet, catalogues, reference materials, etc. In addition, if City on a Hill hosts a student-teacher from Northeastern, the school receives credit for a free course at the university for a City on A Hill teacher. (Although this arrangement has worked well, it may not be for everybody, the school's leaders note. Students have to be adaptable to a non-traditional environment, and the YMCA must be amenable to having schoolchildren on site all day long.)

Other possibilities are numerous:

Museums

The leadership of Henry Ford Museum in Dearborne, Michigan, had been studying ways to expand its educational mission. When Michigan passed its charter-school law in 1993, it was poised for action. The Henry Ford Academy of Manufacturing Arts & Sciences was the result. The academy developed within the grounds of the museum with the help of start-up money from the Ford Motor Company Fund. By building on the museum's existing base -- adding such facilities as an auditorium and cafeteria as needed -- the charter-school leaders were able to open a 400-student high school with minimal capital costs.

In Arizona, the Flagstaff Arts and Leadership Academy and the Museum of Northern Arizona built a productive partnership. The academy's founder, Karen Butterfield, had looked at a 10,000-square-foot facility in a shopping center, but thought it not the best environment for a high school. She broached the idea of the Museum hosting the school and sharing the school's modular buildings for summer outreach. The museum's artifacts related to Native American art, history, and natural science weave into the academy's curriculum when appropriate. Most classes are in the school's six 28x60 foot modular facilities, but the museum shares its 400-acre campus with the academy's teachers and students. Ms. Butterfield believes this innovative arrangement helped the academy raise start-up money.

Historic Preservation

In Denver, the Edison Project joined with a neighborhood organization in a \$6.5 million renovation of the historic Wyatt School. The project yielded classrooms, a computer lab, library, and gym. Because of the historic-preservation angle, the Colorado Historical Society donated \$400,000, and more than a dozen foundations, agencies, and individuals made grants for construction. The school was able to raise \$4.5 million and financed the rest of the project with a bank loan.

Business Connections

Some critics cringe at the thought of businesses running schools. They have a point when programs are advertised as compulsory for all, as with the "seamless web" of the federal School-to-Work program. But when participation is voluntary for all parties, students as well as corporations, good things can happen. Locating a wealth of educational facilities is just one of them.

In Phoenix, Arizona, a private company called The Leona Group, composed of experienced business people and educators, manages several K-12 schools, according to The Bellwether. Tempe Accelerated High School is one such school, and is well positioned to help students in need. The school's quarters are tucked between the Department of Economic Security and the offices of the Pathway Drug Abuse Program.

About 60 of the school's students are Pathway participants; indeed, this year's valedictorian was also a Pathway graduate.

"The Leona Group," report editors Mary Gifford and Melinda Ogle, "manages the business side of the school's operation, emphasizing good business practices. In addition, there are standard testing requirements for all Leona schools. However, according to Cindy Wojtowicz, the director of Tempe Accelerated, each school administration is free to design a curriculum that best suits the needs of its particular student population."

As part of the business program, students this fall are opening an on-site café to be run by students along with the business teacher and a former student who attends Mesa Community College. Educational offerings like this may not be everyone's cup of vegetable soup, but this is a choice that well serves the needs of some youngsters, and that's a good thing.

The National Alliance of Business is actively promoting the idea of business partnerships with charter schools. (Go to www.nab.com/schooltowork/charterschools.) Several model charter schools are already in operation coast-to-coast. These arrangements have obvious potential for facilities and resources when schools and business have mutual goals. Sometimes classes are held in business offices; sometimes employers and employees go into schools to share their experiences.

Here are a few examples:

The Charter School of Wilmington (Delaware) sprang from a consortium of six companies: Bell Atlantic, Conectic, DuPont, Hercules, Christiana Care Health System, and Zeneca. These communications and chemicals corporations joined with parents and teachers with the idea of organizing a school that would prepare children for a technological world. The sponsors send their presidents and CEOs to speak to students and host internships for juniors. The business consortium also helps run the school, although teachers retain control of the academic side.

Fenton Avenue Charter School serves a heavily minority and at risk (95 percent free and reduced lunch) student body in southern California. (Lake View Terrance). Over a period of five years, the school has built with business help a first-class technological system, with a sophisticated fiber optics network, computers at each high schoolers' desk, electronic bulletin boards, and a multi-channel digital satellite receiving station. The Mattel Foundation and the Riordan Foundation have made several grants, and GTE and EMG furnished long-term municipal lease/purchase contracts.

The idea of builders incorporating charter schools into housing developments and then leasing the school back to charter leaders is gaining ground in Arizona - for example in Peoria, where the Tesseract School recently opened. This is another way to save

taxpayer dollars while enhancing communities.

Community Development

Aware of the critical role education plays in a community's health, many community development corporations around the country are helping residents start charter schools or initiating their own. In Newark, N.J., for instance, the New Community Corporation helped the North Star Charter School get up and running. It purchased a building for the middle school and then leased the facility back to the school. It also has helped the school raise money, and furnished office space. Its technology staff even helped wire the school. This fall, the NCC was following up those efforts by opening an elementary chart -- the New Horizon Community Charter School.

How to Pay?

The above are only a small sampling of the creative ways charter schools have found space. But what of the bottom line: how to pay for facilities?

Our study turned up two schools of thought on this subject. One is exemplified by a study issued by the Phoenix-based Goldwater Institute in January 1998, entitled Child-Centered School Funding. Its recommendation can be summarized simply: "Pay as you go."

One of the "enduring myths" of public education, the report declared, is that the only option for financing construction is general obligation bonds, or debt. But why can't schools building facilities be based on a revenue stream if the department store down the street can do so? For that matter, universities build dorms on the basis of anticipated enrollment, and charter school operators are obliged to do likewise.

Goldwater associates Michael K. Block, Jeffry L. Flake, Mary Gifford, and Lewis Solmon calculated that an addition of \$650 to the per-pupil allocation could cover charter-school physical needs adequately. In fact, they concluded, most school districts could maintain existing facilities, and build new schools when needed, without ever going into debt.

This was how they figured it:

"If revenue from 500 new students had to pay for a school costing \$4 million (\$800/square foot, 100 square feet/child, 500 students) then in effect each student must pay for \$8,000 worth of building capital. At 5 percent interest on tax-free revenue bonds, the district would be able to borrow \$8,000 per child if the district could afford to pay \$1,036 per child, per year for 10 years. Since our recommended per student capital allotment is \$650 per year, they will only be able to issue revenue bonds at \$5,000 per student. Thus, the district will need to build less expensive schools, build larger schools, or use the capital allocation from the existing student base. In the

examples just provided, the capital allocations for 500 students could support a school costing \$2.5 million, a \$4 million school could be built from the revenues of 800 students. In a district with other students, the revenues of 2,300 additional students would allow the district to carry \$8,000 per student in revenue bonds.

"In fact, virtually every existing school district in Arizona will be able to build and maintain schools with a per pupil capital amount of \$650 annually, without having to dip into operations funding. Based on the capital cost reimbursement implied by our entry model (\$650), if each student is allocated 75 square feet at a cost of \$65 per square foot for construction, a public school operation would require funding from 6.6 existing students to pay for every new student. In other words, an operation could grow by 15 percent and still have the funds needed for construction. The growth rate that can be sustained would be limited by higher construction costs, the allocation of more square feet per student, or if part of the capital allocation is used for maintenance and repair of existing buildings."

Although charter schools are typically much smaller than regular public schools (often just a few hundred students), much of the overall enrollment growth in Arizona is in the charters. Within three to five years, the Goldwater scholars noted, charter-school enrollment is likely to be outpacing overall student growth statewide. As one result of that trend, school districts will not have to build as many new schools. The innovative use of existing space by charter leaders will help save taxpayers millions in capital costs.

John Schilling, policy director for State School Superintendent Lisa Graham Keegan, notes that Arizona ended a seven-year political and legal battle last year by revamping the school-construction law. Now it is the state's responsibility to build and maintain schools with funds that come directly out of the state general fund. Essentially, Arizona has eliminated general-obligation-bond funding for school construction. Local school districts may seek an override, but only in major elections and only for seven years. Charter schools are exempt from this system, and receive little government help with facilities.

Charter schools do receive 15-year charters in Arizona, enough time to be a benefit if they seek financing from lending institutions, Schilling said. Although many charter schools are in facilities converted to classroom use, they are required to meet health and safety standards. However, their exemption from many regulations enable them to focus intently on what goes on in the classroom and thereby to inject some healthy competition into the education system, he added.

Options for Financing

Supplementing the Goldwater Institute's pay-as-you-go stand is the Minnesota-based Charter Friends National Network, which believes earmarked per-pupil funding is ideal

but there should be multiple options. Paying for the Charter Schoolhouse is of one of its fact-filled reports on the subject. The study is available at www.charterfriends.org or by calling 651-649-5479 or faxing 651-649-5472.)

Option No. 1 incorporates the Arizona way: Provide Adequate Revenue to Cover Facilities Costs.

Highly recommended is that charter-school advocates seek a fair cut of the public funding available for school capital costs. Most state funding formulas provide charter schools a share of operating funds only; thus the charters have to raid their operating monies for capital.

Policymakers in five jurisdictions commendably have started providing a facilities allowance in per-pupil funding. They are: Arizona, the District of Columbia, Florida, Massachusetts, and Minnesota. Generally this is so-called "new money," not a slice taken from funds already allotted a district. Arizona embraces the competitive principle wholeheartedly by allowing money to "follow a child" transferring from a district to a charter school. Minnesota reimburses a charter school up to only 80 percent of a school's lease cost; the 20 percent copayment is intended as an incentive to hold costs down.

Option No. 2 entails securing greater access to low-cost financing, whether to repay loans or to make lease payments. Charter schools face a challenge in this respect because investors may tend to view them as "high risk." Unlike regular public schools, they may lose their charters and shut down if they fail to live up to their performance agreement.

One way to address this problem is for state legislatures to expand bonding authority to make clear that charter schools can qualify. That has been done in Colorado and North Carolina. A possible down side is that additional regulatory requirements (such as reporting requirements and board composition) could result from official recognition as a public entity.

Chicago's approach is worthy of consideration. Recognizing the charter schools need for facilities funding, the school district established a \$2 million pool of funds. The fund is managed by the Illinois Facilities Fund and makes loans at an interest rate of 5 percent.

Option No. 3 expands on the Chicago program with direct or privately capitalized loans pools. One example of this operates in New Jersey where the Prudential Social Investments Program has tendered more than \$6 million in loans to charter schools, and has plans to extend the program to other cities. In North Carolina, Self-Help, a statewide nonprofit community development financial institution, has made several loans to charter schools for facilities and other needs. On the national level, the Charter Schools Development Corporation is organizing a venture called "Kinder Mae" with the

help of federal funding. Originally started for the District of Columbia, Kinder Mae may become a source of loan guarantees and interest-rate subsidies for private investors elsewhere who are starting charter schools.

Option No. 4 entails ways policy-makers might encourage a variety of organizations to provide space for charter schools at minimal costs. Examples abound.

In North Carolina, proposed legislation would provide tax credits to property owners who donate space for certain worthy causes, including education.

Florida's charter-school law enables employers to reserve some classroom seats for employees' children if the companies invest in the school's facilities.

In Washington, D.C., charter schools can bid at favorable terms when vacant schools go on the market. Charter Friends suggests that public agencies be required in certain cases to offer vacant space for charter schools or other nonprofit public entities.

Option No. 5 includes a variety of possibilities for policy changes making it easier for charter schools to secure suitable facilities.

One helpful step would be a clarification in state law, where needed, that charter schools, as public schools, are exempt from property taxes. If property owners leasing space to the charter schools could obtain the same exemption, charter schools could expect the benefits of reduced lease payments.

Some state laws allow conversion of existing public or private schools to charter status. One advantage from such a move is that facilities are already in place.

Investors pondering a 15- to 30-year commitment to a charter school may be wary when a charter comes up for renewal every three to five years. Arizona, Michigan, and the District of Columbia have addressed that by extending the length of the charters to as long as 15 years. Of course, investors take chances every day on institutions that have no charter at all, so when the charter-school movement becomes more of a known quantity to financial institutions, the problem may diminish.

There are several ways for charter organizers to bolster their chances of success, including the securing of financing if needed. Bryan Hassel's *Out of the Box* develops such points as the following:

1. Develop a business plan for potential investors to review. This will contain a description of the school's mission and philosophy of education; an analysis of the school's market; explanation of the marketing strategy; an outline of the school's management plan, with background on key officers and board members; financial data, with projected cash flow.

2. Set aside the necessary time to deal with the complexities of finding, financing, and developing a facility. The process of real estate development is time-consuming. The more time available for shopping, the more likely it is that charter leaders will get a good deal.
3. Develop a clear accountability plan that will allay fears of investors.
4. Minimize the amount that might have to be financed. Ways to do that include waging an all-out capital campaign, and seeking funds that do not have to be repaid, such as community development funds and grants for historical renovation.
5. Minimize the cost of financing. Some options: Cobble together multiple sources of financing; seek tax-exempt avenues whereby investors do not have to pay taxes on the interest they earn; take advantage of tax credits, such as those for renovating old buildings or revitalizing neighborhoods.

Charter schools bring fresh ideas and fresh thinking to American education. Their toughest challenge is getting started and settled into a good home. But this is a problem that charter organizers should be able to solve through Yankee ingenuity and an appeal to the community-minded spirit of this free and generous country.

SOURCES

Reports

Paying for the Charter Schoolhouse: Policy Options for Charter Schools Facilities Financing, Charter Friends National Network, February 1999.

(Available at www.charterfriends.org/facilities.html -- or by calling 651-649-5479.)

Out of the Box, Charter Friends National Network (contains dozens of links to other online resources), available at: www.charterfriends.org/outofbox.html or it can be downloaded in final print form using Adobe Acrobat software at: www.charterfriends.org/outofbox.pdf

Child-Centered School Funding, Center for Market-Based Education and the Goldwater Institute, www.cmbe.org/publications

Charter School Facility Financing: Constraints and Options, Massachusetts Charter School Resources Center, February 1998, available from the Pioneer Institute, 617-723-2277

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The Bellwether, Center for Market-Based Education, Goldwater Institute,
www.cmbe.org/bellwether

Privately Capitalized Charter-School Loan Pools

Prudential's Social Investments Program, 201-802-6995, or
www.prudential.com/community/corporate/cmazz1005.html

Self-Help (North Carolina), 919-956-4400 or www.selfhelp.org

National Cooperative Bank, 202-336-7729 or www.ncb.com

Some Charter Schools to Visit on the Web

City on a Hill, Boston MA, www.doe.mass.edu/cs.cityonahill.html

Fenton Avenue Charter School, Lake View Terrance, CA <http://fenton-cs115.lausd.k12.ca.us>

The Charter School of Wilmington (DE)
www.charterschool.org

Flagstaff Arts and Leadership Academy, Arizona www.musnaz.org

The Henry Ford Academy of Manufacturing Arts & Sciences, Dearborne, Michigan,
www.hfacademy.org