Strategies for Improving
Charter School Facilities Funding

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Executive Summary

Costs associated with accessing and maintaining viable facilities can present an expensive hurdle for public charter schools. This paper discusses five strategies in use in different jurisdictions to support charter schools by reducing the cost and challenges related to facilities. Details follow.

Introduction

In many areas of the United States, state laws and local policies and practices continue to pose formidable obstacles to establishing an operating climate that supports high-quality charter schools.

But even in jurisdictions where the legal framework is more supportive of charter schools that demonstrate academic success, restrictive access to viable real estate often prevents them from serving the students who would most benefit from available seats.

Facilities are a major expense for charter schools. An analysis by the National Charter School Resource Center in 2015 found that California charter schools that own their own buildings pay $895 per pupil on average (13 percent of their per-pupil revenue) for facilities, while those that lease their buildings pay $570 per pupil (8 percent of per-pupil revenue). The Colorado League of Charter Schools found that charter schools in Colorado spend $660 per pupil on facilities costs. But these costs can also be substantially higher, especially where major capital improvements to facilities are required.

For traditional schools and school districts, facilities are responsibilities for which offices within local government are accountable. Although systems in place vary widely in effectiveness, and are susceptible to political pressures, the facilities are built and maintained by taxpayer dollars. While many school districts in urban settings still struggle with that maintenance, even where student populations are reasonably stable, the basic structures and infrastructure for funding already exist.

Charter schools seldom if ever receive the same support for capital expenses that traditional public schools do. This is especially problematic when they are forced to divert precious resources, or attention, away from instructional programs to solve facilities challenges.

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Charter schools are not only required to develop a unique academic plan but they are also required to find and maintain a safe, adequate and accessible school building. In an isolated number of instances, some charters negotiate for the use of existing buildings with local school districts. Others acquire private structures that are then renovated to accommodate its student population. It is not unusual for a charter to start in a temporary and/or shared space and then move to a more permanent space while it grows or while facilities renovation is underway.

Charter schools typically borrow capital for facilities use at an annual rate of 6-7 percent. Any opportunity to reduce this cost can allow charters to allocate more resources to instruction.

In states where charter schools are designated their own Local Education Agency and also recognized by the Internal Revenue Service as nonprofit institutions, charter schools in good standing utilize any number of financial instruments to borrow against future per-pupil funding at going, or occasionally better than, market rates. With many municipal governments nearing their available credit limit, borrowing for expensive school modernization projects may be problematic. Often in such cases, charter schools in good standing can be better positioned to borrow capital needed for facilities development.

In order for high-quality charters to sustain long-term success, their access to functional facilities must be improved systematically. Allowing charter schools to use surplus properties and to access lower-interest funding could help charters to open schools with more solid financial grounding, while allowing them to focus resources on instruction and academics.

According to a paper published by the National Alliance for Public Charter Schools in 2015, only 15 states provide any type of direct facilities aid to charters, and only four of those 15 provide per-pupil capital funding over $1,000.

The Walton Family Foundation, one of the country's most prominent and generous philanthropists for charter schools, recently established a new, $250 million Building Equity Initiative to improve charter schools' access to viable facilities. The foundation announced that the project will initially focus on 17 cities, providing low-interest loans to not-for-profit lenders and strengthening their network of resources and experts for securing facilities.

Instruments for Strengthening Charter School Access to Viable Facilities

State policies that help support low-interest lending to charter schools. California is home to 1,131 charter schools that serve more than half a million children. While the state still has room for improvement in the area of accountability and performance policies, it already has a law on the books to provide some support for charter school facilities. Enacted in 2001, Charter School Facility Grants and Funding Determinations legislation provides assistance to charter schools for rent and lease expenditures that meet specific eligibility criteria. Charter schools can access this funding support if they serve a student population where at least 55 percent of their pupils are eligible for free or reduced lunch or they must be physically located in the attendance area of a public elementary school with 55 percent qualified students.

In Colorado, state law (C.R.S. 22-30.5-406) facilitates a charter borrowing money and making payments through the State Treasurer. The program gives charter schools a stronger chance at receiving favorable financing terms and securing loans. In 2015, Colorado had 69 charters that were participating in this program.

A working group in Washington, D.C. that supports high-performing charter schools is currently discussing options for equitable school facility options. This includes a central clearinghouse for available properties and related information; facilities financing options; and zoning relief. This group has been in place since 2015 and is scheduled to deliver recommendations later this year.

Allow charters to access government-owned surplus and vacant facilities at reduced cost. In Arizona, Governor Doug Ducey has been advocating to allow high-performing charter schools to have access to vacant space in school districts. One strategy Ducey has supported would position the state to help guarantee construction loans for charters seeking this space. In 2015 he successfully proposed the creation of the "Arizona Public School Achievement District" to focus on this specific initiative. The state recently allocated money for this initiative in May 2016, so the program will be active pending future budget negotiations.

Arizona already has legislation (A.R.S. § 15-189) that requires the state to "annually publish a list of vacant and unused buildings and vacant and unused portions of buildings that are owned by the state or by school districts that may be suitable for the operation of a charter school."

In 2011 then-Indiana Governor Mitch Daniels signed into law legislation that would allow charters to lease or purchase closed public school buildings for one dollar. Even after Governor Daniels left office, the state continued to progress with charter school policy. Today, the National Alliance for Public Charter Schools ranks Indiana number one in the U.S. for charter-friendly laws. In 2015, the state allocated $500 per charter school pupil for facilities and transportation needs. The same budget also created a $50 million charter school loan program allowing charters to borrow up to $5 million each with one percent interest.

Specific capital fund set-asides for charter schools. Florida has an initiative on the books that gives charter schools a facilities per-pupil allotment. However, the pot of money that provides that compensation is dwindling. In 2006 the state reported nearly 99,000 charter school students were enrolled statewide and allocated about $536 per charter school student for facilities funding. Nine years later, more than 250,000 students share $50 million in capital funding, which averages less than $200 per student.

In the District of Columbia, charter schools receive $3,124 per student specifically for facilities, in addition to the regular per-pupil allotment. The size of the allotment has not been adjusted for inflation, and the funding level for FY 2017 remains frozen at the level set in 2008.

Currently, a lawsuit by charter schools and advocates asserts that their students are not receiving the equal funding required by the DC School Reform Act of 1995 for all public charter school and traditional DC Public School students. Advocates insist that the disparity between the official DCPS capital budget, at $8,129 per student, and the $3,125 charter school students receive is even greater, because of systems in place for school modernization for traditional district schools.

State and federal tax credits can help charter schools finance facilities. While renovating historic school facilities can be daunting, the financial incentives that exist in some states can make the headache worthwhile. In Richmond, Virginia, the Patrick Henry School of Science and Arts, the Commonwealth's first elementary charter school, leveraged state historic tax credits to 'save' the school nearly 20 percent on construction costs. Renovations using the historic tax credits are done under a strict plan that strives to preserve the historic integrity of the school. The school is located in the Patrick Henry building that is leased by the Local Education Agency to the charter school for $1/year.

The federal Community Development Block Grants (CDBG) are issued by U.S. Department of Housing and Urban Development and are a viable financing option for charters that fall into the guidelines required to access these funds. The CDBG options vary by city population, job expansion and other community improvement factors. Currently, in Houston, CDBGs are being used to support the Lawson Academy Charter School, after the city council approved $22.6 million in April 2016 to support several community projects including the school. Lawson Academy will use nearly $8 million of the funds to open new middle schools. The CDBG, along with a portion of per pupil funding, a construction loan and some private donations will help finance the entire project.

Federal New Market Tax Credits (NMTC), administered by the Treasury Department, are another complex funding option for charter schools. To qualify for these federal credits, the charter facility must be located in an area that meets a certain poverty threshold and the school must bring a certain number of jobs to the area. The tax credit is nearly 40 percent of the entire qualifying cost. Charters can partner with nonprofit and financial groups that work in this area to leverage the tax credits.

In California, High Tech High (HTH) is a high-performing charter with several campuses. One of the locations, HTH North County, received some state funding in 2007 and NMTCs from Revolution Community Ventures' three organizations — Capital Impact Partners, Local Initiatives Support Corporation (LISC) and RSF Social Finance — totaling about $13 million in leveraged debt. The school was built in an area with a poverty rate of 24.9 percent and an estimated median family income of $37,943 in 2013 that helped it leverage the NMTCs. Charter schools can also work with private entities to leverage ‘green’ tax credits by renovating facilities with environmentally-friendly infrastructure solutions. Several states that have aggressive solar power tax credit incentives include New York, Oregon, Hawaii, and North Carolina.

Charters can take cues from local school districts that have used incentives for solar panel installation and use. In California, the Huntington Beach City School District launched a project that is estimated to save the district more than $15 million. The district installed a 615-kilowatt solar system on one of its elementary schools. Energy consumption is expected to be reduced by 30 percent and emissions by more than 1,200 metric tons. Incentives vary greatly state-to-state. Charter schools would benefit from exploring state options where they are located.

Most charters operate under a non-profit umbrella that helps them apply for grants and float bond issues. Unfortunately, research by Municipal Market Advisors shows that charter-school bonds are the seventh-most likely sector to miss debt payments, out of 33. Despite that, charters in Texas and New Jersey were recently awarded bonds by their respective states. Over the past two decades, charters have been issued more than $10 billion in bond financing. Increasingly, lenders are strengthening their decision making by better understanding charter schools’ academic performance ratings and financial history, an encouraging development likely to improve the sector’s performance in utilizing debt.

Paying for technology and broadband internet. School internet access bandwidth to support classroom technology is recommended to be at least 100 Mbps per 1,000 students and staff by the State Technology Directors Association, and widely expected that schools will need to increase that by as much as 50 percent per year for the near future. A number of government funding streams support construction work that provides broadband access that meets these goals.

Charter schools that are designated Local Education Agencies (LEAs) can seek funding directly from state or federal sources, while charter schools in states (like Virginia) where they are not must work with their school district to accomplish this work.

Potential government funding sources include:

The Federal Communications Commission’s E-Rate Program offers initial discount rates (offsetting telecommunications expenses) at a sliding scale for approved schools.

Charter schools may also be eligible for dedicated state matching funds, such as the California Broadband Infrastructure Improvement Grant Program, Massachusetts Digital Connections Partnership Schools Grant, or the Maine Telecommunications Education Access Fund.

The federal Every Student Succeeds Act’s Title IV includes a new Student Support and Academic Enrichment Grant program, which is currently navigating the Congressional appropriations process. Funds, when approved, will be made available through state grant programs.

The nonprofit Education Superhighway (www.educationsuperhighway.org) publishes a District Tools and Service guide.

Charter-focused advocacy groups and private lenders can provide technical and financial support to charters beyond what traditional lenders offer. E.L. Haynes is a high-performing charter school in Washington, D.C. that initially partnered with Building Hope, a national leader in nonprofit charter school lending and project management, to secure a $1 million loan to help the school leverage $10 million in long-term financing. The school is one of several in the Nation's Capital to use the federal New Market Tax Credit program and Qualified School Construction Bond funds to pull the entire deal together. Building Hope focuses on supporting high-performing charters on a short-term basis (under 4 years) that ultimately help the schools secure larger funding.

Some traditional banks, including United Bank and Bank of America, have built active lending portfolios offering loans to charter schools. The Charter Schools Lenders' Coalition represents a group of mission-driven community development groups focused serving low-income and economically underserved communities. The Charter Schools Development Corporation is another national nonprofit lender that also offers financial support to charter schools, and also develops, leases and manages charter school properties through its affiliated property corporation.

Conclusion

These policy initiatives vary in access as well as practice, but collectively the ideas are steps in the right direction for providing equitable resources to charter schools. State lawmakers and charter school advocates have an opportunity to explore these ideas and work together to develop and approve legislation for their respective communities. Providing charter schools with more stable financial footing and increased resources for academics could ultimately result in more high-performing charters for students to access.

Resources to access for more information:

- National Alliance for Public Charter Schools - State Policy Snapshot: Facilities Funding for Public Charter Schools.
- Arizona Public School Achievement District
- Education Commission of the States, Does the State Provide Direct Facilities Funding or Other Facilities Assistance to Charter Schools?
- State Educational Technology Director's Association, http://www.setda.org/priorities/equity-of-access/e-rate-modernization/
- Report from Federal Reserve Bank of San Francisco: Charter Schools Ripe for Green Investment
- Building Hope and Charter School Development Corporation
- U.S. Department of Education: Making Charter School Facilities More Affordable
- Local Initiatives Support Corporation (LISC): 2014 Charter School Facility Finance Landscape