

# Charter School Authorizer Funding

The **National Association of Charter School Authorizers (NACSA)** is the trusted resource and innovative leader working with educators and public officials to increase the number of high-quality charter schools in cities and states across the nation. NACSA provides training, consulting, and policy guidance to authorizers and education leaders interested in increasing the number of high-quality schools and improving student outcomes. Visit us at [www.qualitycharters.org](http://www.qualitycharters.org).

# Contents

■ Background on Authorizer Funding .....	1
■ Key Considerations for Policymakers in Setting Authorizer Funding Provisions .....	2
What authorizer funding structure options are available?	
What is the funding level required for quality authorizing?	
Are there instances when an authorizer might require more or less funding?	
Should authorizer funding come with “strings”?	
Should authorizers be allowed to sell services to schools?	
■ Recommendations and Best Practices for State Policy on Authorizer Funding.....	4
■ Resources and Further Analysis .....	5

## About NACSA’s Policy Guide Series

The growth and quality of a charter school sector is largely dependent on state policies that define approval, monitoring and renewal structures, criteria and processes. NACSA’s Policy Guide series is intended to support state legislatures in developing policy environments that promote quality authorizing and high-quality charter schools. Additional copies of this Guide are available upon request.

Copyright © 2009 National Association of Charter School Authorizers

Permission is hereby granted to copy any or all parts of this document for non-commercial educational purposes. Please credit the “National Association of Charter School Authorizers.”

## Charter School Authorizer Funding: Dollars and Sense

Authorizers have responsibilities to the public to ensure that charter schools are academically, organizationally and fiscally sound. To fulfill these responsibilities, authorizers need human capital and financial resources. Sufficient public funding should be allocated to enable competent execution of core authorizer functions.

### ■ Background on Authorizer Funding

As representatives of the public's interests in public charter schools, authorizers lie at the foundation of a quality charter school sector. The core functions of authorizing – charter school approval, oversight and evaluation – are essential in promoting and upholding charter school quality. To carry out these functions professionally and effectively, authorizers require sufficient resources.<sup>1</sup>

Until recently, the charter school sector and state charter school policy have focused almost exclusively on the schools themselves, giving scant attention to charter school authorizing. As a result, authorizers are often under-resourced, lacking the capacity to fulfill their responsibilities effectively. The result has too often been poor authorizing practices that, in turn, contribute to low-quality charter schools. Weak authorizers are more likely to approve weak

**Ensuring that authorizing agencies have sufficient funding to execute their duties professionally is essential for quality authorizing and quality charter schools.**

applications for new schools, more likely to renew low-performing charter schools, and more likely to either over-regulate the schools they monitor or not monitor them at all.

Ensuring that authorizing agencies have sufficient funding to execute their duties professionally is essential for quality authorizing and quality charter schools. State charter school policy should provide for adequate authorizer funding as an essential element of the charter school infrastructure.

### ■ Key Considerations for Policymakers in Setting Authorizer Funding Provisions

#### What authorizer funding structure options are available?

Authorizing funding structures generally fall into three categories:

- Budget allocation from the authorizer's parent organization
- State budget appropriation
- Fees from authorized charter schools

Following is an overview of each of these three structures, identifying the benefits and limitations of each.

#### *BUDGET ALLOCATION FROM THE AUTHORIZER'S PARENT ORGANIZATION*

The authorizing function is often performed by a small division or office within a larger agency. For example, school district authorizers typically have a "charter schools office" that performs the day-to-day functions of authorizing, just as they have a "transportation office" that performs the daily duties of getting students to and from school.

Authorizing offices within larger organizations may receive funding through the organization's operational

budget. Most authorizers funded through this structure operate in states where the charter school law is silent on authorizer funding. Under this structure, charter authorizers must fund the function through their existing budgets.

The advantage of this approach is that it can work very well for authorizers that faithfully seek to perform their authorizing responsibilities. It allows those organizations to allocate and manage resources for authorizing in the same way that they allocate and manage resources for other functions. However, if a state's charter law forces unwilling organizations to authorize, they are likely to do so on a shoestring, assigning the function to an existing staff member or department without sufficient new resources. Yet even for eager authorizers, this funding approach is highly vulnerable to changes in leadership and/or financial priorities and may not be a reliable funding source for supporting consistent quality. In addition, the lack of new funding to support this new work may deter or prevent interested entities from becoming authorizers.

#### STATE APPROPRIATION

Under a state appropriation, authorizers are funded by a line-item allocation within the state budget. This occurs most often when the authorizer is a state entity, such as a state education department or an independent statewide charter board. An appropriation enables policymakers to fund authorizing at the level they see fit, rather than divert funds from charter schools or force authorizing organizations to fund the work through their existing budgets. On the downside, this option may be an unreliable and unpredictable funding source, as it is subject to the state's appropriations process and shifting political winds.

#### AUTHORIZING FEE

Many states fund charter authorizing through authorizing fees, typically calculated as a percentage of per-pupil funding for each charter school an authorizer oversees. Of the 41 states (including the District of Columbia) with charter school laws, 14 states provide for such fees, ranging from 0.5% to 5% of per-pupil funding, with an average of 3% (*See Appendix*).

The primary advantage of the authorizing fee option

is that it is a reliable funding structure that links the amount of resources available to an authorizer to the number of schools and students that the authorizer monitors. If authorizers are increasing the number of schools they oversee, their funding stream grows at the same rate. The downsides to this approach, however, are that it:

- diverts charter school operational funding to authorizers,
- may provide an inappropriate incentive for authorizers to approve and keep open schools that should not be operating, and
- has the potential to provide both too little and too much funding, depending on the number of schools an authorizer monitors.

Despite these limitations, a fee structure is often the best approach for supporting professional authorizing since it is the most stable funding mechanism. Moreover, the disadvantages of this approach can be mitigated through state policy (*see Recommendations* below).

### What is the funding level required for quality authorizing?

There is no empirical evidence that identifies a specific level of funding required for quality authorizing. It is clear that authorizers need sufficient resources to hire competent staff and/or procure services to fulfill their responsibilities professionally.<sup>2</sup> An authorizing office is not intended, however, to serve as a traditional school district central office. As a result, authorizers do not require the level of funding that enables the growth of a bureaucracy. Quality authorizing can be conducted by a lean staff with expertise in school performance accountability and data analysis, school finance, nonprofit governance and management, and legal compliance. Dropping below this kind of minimum staffing arrangement, however, leaves authorizers without the capacity to approve and oversee schools well.

### Are there instances when an authorizer might require more or less funding?

A new entity that is created specifically to authorize charter schools – such as an independent chartering

**Accountability is a foundational premise of the charter school concept. Authorizers should not be an exception, especially when receiving public funds to carry out essential public responsibilities.**

board – begins as a start-up organization. Like any start-up venture, it will require start-up funding to develop the necessary infrastructure and systems to begin operation. The need for this funding is especially clear during the year that the authorizer will need to function before its first schools open their doors. Many states that have established new authorizing agencies have provided them start-up funding in their early years. Furthermore, authorizers that rely on a fee to support their operations are also susceptible to under-funding

if they oversee a small number of schools (usually during the first year or two of operation) and over-funding if they oversee a large number of schools (after several years of operation).

### **Should authorizer funding come with “strings?”**

Accountability is a foundational premise of the charter school concept. Authorizers should not be an exception, especially when receiving public funds

## **A Policy Idea Worth Testing: A Hybrid Approach to Authorizer Funding**

As stated above, a single fee-based structure is the most predictable and cost-effective of current authorizer funding models. This structure is less than optimal, however. Downsides to this model include:

- 1) It risks creating financial incentives for authorizers to approve substandard charter applications and keep open poorly-performing schools.
- 2) It may inefficiently fund certain authorizers, such as under-funding start-up authorizers and/or over-funding authorizers that are long past start-up and have achieved economies of scale.
- 3) It diverts operating funds from charter schools that are usually already cash-strapped.

A potential solution to this structure’s problems may be to create a “hybrid” authorizer funding mechanism composed of two parts:

- A state-funded base dollar amount for every authorizer; plus
- A percentage of per-pupil revenue from each authorized school.

Combining a state-funded base amount with a fee based on school revenue would divert less money from charter schools to fund authorizing, while also reducing incentives for authorizers to make financially-influenced chartering decisions. Likewise, by creating a base amount simply for authorizing, state policy could fund all authorizers more efficiently by providing a larger base amount to new authorizers and a smaller base amount for well-established authorizers “of scale.” Thus, this novel approach could fund authorizers most efficiently while reducing the inherent disadvantages of a single-fee authorizing funding structure.

## **In order to ensure that authorizers have sufficient resources to carry out their core functions effectively, state charter school policy should provide for adequate authorizer funding.**

to carry out essential public responsibilities. More and more states are developing systems to evaluate the performance of authorizers against generally accepted professional standards. A small number of states now require their state education agencies to monitor the performance of authorizers and empower them to revoke authorizers' powers if professional standards are not met.

### **Should authorizers be allowed to sell services to schools?**

Organizations like school districts and state education departments have long-standing histories of providing services, such as transportation, special education,

professional development and food programs, to schools within their jurisdictions. When such organizations also serve as authorizers, the charter schools they oversee may be able to access services that are provided to traditional district schools.

Authorizers should not, however, be permitted to require charter schools to purchase such services. Rather, the decision to purchase or decline an authorizer's services should be left solely to the discretion of each charter school, assessing and treating the authorizer as any other service provider in the marketplace. If the school chooses to purchase services from the authorizer, the authorizer and charter school should execute a clear service contract separate from the charter contract.

## **■ Recommendations and Best Practices for State Policy on Authorizer Funding**

In order to ensure that authorizers have sufficient resources to carry out the core functions of charter school approval, oversight and evaluation effectively, state charter school policy should provide for adequate authorizer funding. In most cases, an authorizing fee is the most reliable mechanism for doing so. In providing for authorizing fees in state charter school law, NACSA recommends the following best practices:

- **Establish an authorizing fee structure based on a percentage of a specified revenue base.** A percentage-based fee adjusts to cost fluctuations, such as inflation, which a fixed dollar amount (e.g., a fixed amount per school or per student) does not. State policy should specify the revenue base on which the fee will be assessed. Authorizing fees are typically calculated as a percentage of per-pupil funding for each charter school an authorizer oversees. However, some states also include funding derived from local, state, or federal government grants in

the revenue base. Whatever the formula, the revenue streams included in the base must be clearly defined.

In determining the specified fee, state policy should set a percentage that is sufficient to enable authorizers to carry out their responsibilities effectively while taking into account the various circumstances in which authorizers may require more or less funding. States should, for example, consider capping the total amount of funding available to an authorizer or reducing the percentage of the fee that authorizers are paid once a certain threshold is reached.

Because of these various nuances, states should consider using the state charter school law to establish an authorizing fee structure and authorize a single state agency, such as the state department of education, to promulgate regulations or policies that set the specific parameters of the fee structure, including the exact fee percentage and any variations to that fee given an authorizing program's age or size.

- **Ensure that new authorizers have access to funds to perform their responsibilities.** To deal with the start-up challenges, states should consider appropriating a baseline level of adequate resources to authorizers during the year before their first schools open and, if needed, during the first year after schools open.
- **Use a uniform fee percentage for all authorizers in the state.** State charter school laws that enable authorizers to negotiate an authorizing fee with schools can result in very poor practice and a low-quality chartering environment.<sup>3</sup> Authorizers may feel competition to drive down their authorizing fee at the expense of having sufficient funds to fulfill their responsibilities effectively. Charter schools may be inclined to seek the best “deal” rather than the authorizer that is best-suited and equipped to provide effective oversight, and authorizers will be pressed to strike deals at the expense of quality authorizing. To avoid this “race to the bottom,” policymakers should set a uniform funding structure for authorizers statewide.
- **Establish a system by which authorizer funding will flow.** State charter school policy should define a clear process for transferring authorizing fees to authorizers on a timeline that allows for sound budgeting and adequate cash flow.
- **Require accountability for public funds directed to authorizing.** States should hold authorizers accountable for performing their responsibilities effectively with the public dollars they receive. A well-developed statewide authorizer evaluation system can assess the quality of authorizing practices as well as ensure the appropriate use of funds.
- **Conduct a periodic review of the state’s authorizing fee structure.** State law should provide for periodic analysis by an appropriate state agency to assess the soundness and effectiveness of the state’s authorizing funding structure. This analysis should, at a minimum, take into consideration actual costs of authorizing and capacity needs based on the age and size of an authorizing program.

## ■ Resources and Further Analysis

Gau, R. (May 2006). *Trends in Charter School Authorizing*. Thomas B. Fordham Institute.

[http://www.edexcellence.net/detail/news.cfm?news\\_id=355&id=130](http://www.edexcellence.net/detail/news.cfm?news_id=355&id=130)

Mead, S. & Rotherham, A. J. (September 2007). *A Sum Greater Than the Parts: What States Can Teach Each Other About Charter Schooling*. Education Sector.

[http://www.educationsector.org/research/research\\_show.htm?doc\\_id=521913](http://www.educationsector.org/research/research_show.htm?doc_id=521913)

National Alliance for Public Charter Schools (June 2009). *A New Model Law for Supporting the Growth of High-Quality Public Charter Schools*.

National Association of Charter School Authorizers (2007). *Principles and Standards for Quality Charter School Authorizing: Agency Capacity and Infrastructure*.

<http://www.qualitycharters.org/publications>

Palmer, L. B. & Gau, R. (June 2003). *Charter School Authorizing: Are States Making the Grade?* Thomas B. Fordham Institute.

[http://www.edexcellence.net/detail/news.cfm?news\\_id=67&id=130](http://www.edexcellence.net/detail/news.cfm?news_id=67&id=130)

Palmer, L. B. et al. (October 2006). *Turning the Corner to Quality: Policy Guidelines for Strengthening Ohio’s Charter Schools*. Thomas B. Fordham Institute.

[http://www.edexcellence.net/detail/news.cfm?news\\_id=362&id=130](http://www.edexcellence.net/detail/news.cfm?news_id=362&id=130)

Smith, N. & Herdman, P. (June 2004). *Built for Quality: The Capacity Needed to Oversee Charter Schools*. National Association of Charter School Authorizers.

<http://www.qualitycharters.org/publications>

## ■ Acknowledgements

This NACSA Policy Guide was authored by **Rebecca Cass**, NACSA’s former Policy Director. The Policy Guide series was edited by **Bryan C. Hassel**, Co-Director of Public Impact and **Margaret Lin**, an independent consultant and the first executive director of NACSA.

## ■ Appendix: Authorizing Fees by State

State	Authorizer Type	Authorizer Fee Structure
California	school districts, county boards of election, state education agency	Up to 1% of revenue or 3% if school is provided a facility substantially rent free
Colorado	school districts, independent chartering board	Up to 5% of per-pupil revenue
District of Columbia	independent chartering board	Up to 0.5% of a school's annual budget
Florida	school districts	Up to 5% of revenue
Hawaii	state education agency	Up to 6.5% of federal grants and subsidies
Indiana	school districts, public universities, mayor of Indianapolis	Up to 3% of revenue
Louisiana	school districts, state education agency	Up to 2% of per-pupil revenue in a school's first year of operation; Up to 3% of per-pupil revenue in a school's second year of operation and thereafter
Michigan	school districts, intermediate school districts, community colleges, public universities	Up to 3% of state revenue
Minnesota	school districts, intermediate school boards, cooperatives, nonprofit organizations, public and private colleges and universities	1.5% of a defined revenue base subject to state determined minimum and maximum caps per school
Missouri	school districts, public and private colleges and universities	1.5% of state and local funding not to exceed \$125,000 (adjusted for inflation)
Nevada	school districts, state education agency	2% of apportioned revenue (for a school's first year of operation) and 1% (for a school's second year of operation and beyond)
Ohio	school districts, intermediate school districts, public universities, nonprofit organizations	Up to 3% of state revenue
Oklahoma	school districts	Up to 5% of state revenue
South Carolina	school districts, independent chartering board	Up to 2% of gross revenue

Source: Analysis of state charter school laws as of Winter 2009 conducted by NACSA staff. This information is subject to change.

<sup>1</sup> See Gau, *Trends in Charter School Authorizing*, at 1 and Mead & Rotherham, *A Sum Greater Than the Parts: What States Can Teach Each Other About Charter Schooling*, at 5.

<sup>2</sup> See Smith & Herdman, *Built for Quality*, at 1 for a deeper explanation of the human resource needs of an authorizing office.

<sup>3</sup> See Palmer et al., *Turning the Corner to Quality: Policy Guidelines for Strengthening Ohio's Charter Schools*, at 23 for a deeper explanation of the challenges and issues Ohio has faced as a result of varying fees among authorizers in that state.