



Illinois State Charter School Commission

160 North LaSalle Street Suite 601 • Chicago, Illinois 60601

DATE: February 15, 2014

MEMORANDUM

TO: The Honorable Pat Quinn, Governor
The Honorable John J. Cullerton, Senate President
The Honorable Christine Radogno, Senate Minority Leader
The Honorable Michael J. Madigan, Speaker of the House
The Honorable Jim Durkin, House Majority Leader

FROM: Senator Iris Martinez, Co-Chair, Charter School Funding Task Force
Commissioner DeRonda Williams, Co-Chair, Charter School Funding Task Force

SUBJECT: Charter School Funding Task Force Report

On behalf of the Illinois Charter School Funding Task Force, co-chaired by Senator Iris Martinez and Charter Commissioner DeRonda Williams, this Report and Recommendation Regarding Charter School Funding in Illinois is hereby submitted in compliance with House Joint Resolution 36. HJR 36 established the Charter School Funding Task Force and required a report with the Task Force's findings to be submitted no later than February 15, 2014 to the Illinois legislature. An Appendix of additional information is hereby also submitted with the Report. A Minority Report was also submitted and is included in the Appendix as Exhibit V.

HJR 36 provided that the Illinois State Charter School Commission provide administrative support to the Task Force. Accordingly, if you have any questions or concerns, please contact Jeanne Nowaczewski, Executive Director of the Illinois State Charter School Commission at 312-814-1258 or Jeanne.Nowaczewski@illinois.gov.

Enclosures

cc: Senator William Delgado, Chair, Senate Education Committee
Representative Linda Chapa LaVia, Chair, House Education Committee
Senator Kimberly Lightford, Chair, Senate Subcommittee on Charter Schools
Tim Anderson, Secretary of the Senate
Tim Mapes, Clerk of the House
Dr. Christopher Koch, Superintendent, Illinois State Board of Education
Nicki Bazer, General Counsel, Illinois State Board of Education
Barbara Byrd Bennett, CEO, Chicago Public Schools
Greg Richmond, Chairman, Illinois State Charter School Commission
Legislative Research Unit
State Government Report Center

Illinois State Charter School Funding Task Force

Report and
Recommendations

Mandated by House Joint Resolution 36

February 15, 2014

Illinois Charter School Funding Task Force Report

Illinois State Charter School Funding Task Force
Report and Recommendations
Mandated by House Joint Resolution 36

Final Dated February 15, 2014

Table of Contents

1. Executive Summary
2. Background
 - a. History of Charter Law in Illinois
 - b. Formation and Directive of the Illinois Charter Funding Task Force
3. Relevant Illinois Charter Law Provisions
4. National Perspective on Charter School Funding
 - a. Analysis of Charter School Funding in Featured States
 - b. Analysis of Per Capita Funding Issues
 - c. Analysis of Facilities Funding Issues
5. Analysis of Charter Funding Among Illinois Authorizers
 - a. Analysis of Charter Funding in District 299
 - b. Analysis of Funding Commission Authorized Charter Schools
 - c. Impact of Commission Authorized Schools on Host Districts
6. Recommendations of the Task Force:
 - a. Per Capita Funding Range
 - b. Facilities Access & Funding
 - c. Commission-Authorized Schools
 - d. Transition Impact Aid
 - e. Transparency, Predictability, and Enforcement of Funding
 - f. Virtual Schools
 - g. Statewide Education Funding
7. Conclusion
8. Appendices
 - A. Appendix A: Task Force on Charter School Funding Members
 - B. Appendix B: Bibliography of All Presentations to the Task Force
 - C. Appendix C: Roster of all Task Force Meetings, with Attendees
 - D. Appendix D: Select Excerpts of Relevant Provisions of the Illinois Charter School Law & Southland College Prep Appellate Court Decision
 - E. Appendix E: Voting Process For Task Force Recommendations
 - F. Appendix F: Executive Summary of “Charter School Funding: Inequity’s Next Frontier”, Thomas B. Fordham Institute (2005)

Illinois Charter School Funding Task Force Report

- G. Appendix G: Executive Summary of “Charter School Funding: Inequity Persists”, Ball State University (2010)
- H. Appendix H: Executive Summary of “Equal or Fair? A Study of Revenues and Expenditures in American Charter Schools”, Western Michigan University (2010)
- I. Appendix I: Summary of the FY2011 Revenue Study *in progress*, University of Arkansas (to be published April 2014)
- J. Appendix J: National Alliance of Public Charter School’s Comparative Analysis of Charter School Funding Practices Across Other States
- K. Appendix K: Select Excerpts of Provisions Related to Funding Charter Schools from Comparison States
- L. Appendix L: Summary of Illinois State Board of Education PCTC Calculation
- M. Appendix M: Chicago Public School’s PCTC Breakdown by Charter School Spreadsheet
- N. Appendix N: INCS’ PCTC Breakdown by Charter School Adjusted for In-kind and Local Shared Special Education Costs
- O. Appendix O: Alternative PCTC Recommendation: Student Based Budgeting & Charter Funding Calculation
- P. Appendix P: CFC-PCTC Comparison Documents, including:
 - a. Snap Shot of Interactive CFC/PCTC Side-by-Side Comparison by district
 - b. Comparing CFC to PCTC Document
 - c. ISBE Comments on Proposed CFC
- Q. Appendix Q: Commission Authorized Charter Schools’ Recommendation for Funding
- R. Appendix R: District Recommendation for Commission Authorized Charter School Funding
- S. Appendix S: Illinois Facilities Fund Recommendation
- T. Appendix T: House Joint Resolution 36: Charter Funding Task Force
- U. Appendix U: Charter Funding Task Force Recommendations for Voting Purposes, Amendments, and Final Roll Call
- V. Appendix V: Minority Report

Illinois Charter School Funding Task Force Report

1. Executive Summary

The Charter School Funding Task Force was convened in September, 2013, in fulfillment of House Joint Resolution 36 which charged the Task Force with the following:

1. Compile a comparative analysis of charter school funding practices across the United States; and
2. Examine the current funding provisions in the Charter Schools Law for the purpose of ensuring equity, specifically the provision allowing school districts to provide charter schools funding in the range of 75%-125% of the district's per capita tuition charge; and
3. Review the effects of State authorized charter schools on the students served by the charter, the students in the home school district, and the home school district's budget.

In pursuit of these important goals, the Task Force met nine times, and received presentations, research, and related information on a variety of topics related to the charge of the Task Force, including the Per Capita Tuition Charge funding methodology, charter school funding practices and laws in other states, alternative funding methodologies, national studies on charter school funding, and charter school access to facilities in Illinois and other states. The Task Force also considered issues it believed relevant to charter schools in the State even if they were not specifically named in HJR 36, such as contract transparency and virtual charter schools. The Task Force's presentations and discussions included diverse viewpoints and information. This Report and Appendix offer greater detail on the extensive information and research considered by the Task Force. In addition, a Minority Report was submitted on Feb. 14, 2104, and is included in the Appendix to the Report as Exhibit V.

The 12 recommendations presented in this Report were voted on individually and reflect the collective will of the Task Force and are the result of intense consideration of the topics and information listed above. The Task Force recommends that Illinois law be amended to provide for:

Recommendation I: Funding charter schools based on "Student Based Budgeting," ("SBB"), or a new "Charter Funding Calculation," ("CFC"), rather than the current Per Capita Tuition Charge provisions;

Recommendation II: Studying the CFC and SBB systems, once implemented;

Recommendation III: Applying charter authorizer fees to all authorizers;

Recommendation IV: Providing better borrowing terms for charter schools;

Recommendation V: Requiring disclosure of information regarding unused facilities to charter schools and others;

Recommendation VI: Lengthening potential terms of some charter renewals;

Illinois Charter School Funding Task Force Report

Recommendation VII: Maintaining the funding methodology and narrowing the range for state-authorized charter schools;

Recommendation VIII: Fully funding transition impact aid;

Recommendation IX: Requiring greater transparency for authorizer payment rates;

Recommendation X: Establishing stricter requirements for Educational Management Organizations, (“EMO”) contracts with charter schools;

Recommendation XI: Establishing different funding for virtual charter schools; and

Recommendation XII: Increasing funding for education in general in Illinois.

Co-Chairs Senator Iris Martinez and Commissioner DeRonda Williams/Feb.15, 2014

Illinois Charter School Funding Task Force Report

2. BACKGROUND

a. History of Charter School Law in Illinois

The first charter schools law in Illinois was passed in 1996. At that time, the legislature stated that the purposes of the Charter School Law were to “encourage educational excellence” and “promote new options” towards the goal of “improv(ing) pupil learning” and “increas(ing) learning opportunities for all pupils”:

“The General Assembly finds and declares as follows:

(1) Encouraging educational excellence is in the best interests of the people of this State. (2) There are educators, community members, and parents in Illinois who can offer flexible and innovative educational techniques and programs, but who lack an avenue through which to provide them within the public school system. (3) The enactment of legislation authorizing charter schools to operate in Illinois will promote new options within the public school system and will provide pupils, educators, community members, and parents with the stimulus to strive for educational excellence.

(b)The General Assembly further finds and declares that this Article is enacted for the following purposes:

(1) To improve pupil learning by creating schools with high, rigorous standards for pupil performance. (2) To increase learning opportunities for all pupils, with special emphasis on expanded learning experiences for at-risk pupils, consistent, however, with an equal commitment to increase learning opportunities for all other groups of pupils in a manner that does not discriminate on the basis of disability, race, creed, color, gender, national origin, religion, ancestry, marital status, or need for special education services.”

(See Appendix D for full citations from Illinois Charter Schools Law.)

In the 18 years since the passage of the Illinois Charter Schools Law, 64 charters have been issued throughout the state. 49 of those charters have schools operating in Chicago (47 authorized by District 299 and two authorized by the Illinois Charter School Commission), and 15 charters have been issued elsewhere in the State. At the present time, the State has established caps on the number of charters. According to the charter law, there are still 56 charters under the cap that have yet to be granted, 26 in the City of Chicago and 30 in the remainder of the State. While new charter schools have opened annually in Chicago District 299, no new charter schools have opened elsewhere in the State of Illinois for the past two years,

Illinois Charter School Funding Task Force Report

since Learn Charter School opened in North Chicago in 2012. Collectively, charter schools currently serve approximately 60,000 students in Illinois¹.

The current charter school law gives latitude to charter authorizers, (school districts and the State Charter School Commission), to set the funding rates for charter schools between 75% and 125% of the host district's Per Capita Tuition Charge ("PCTC"). As a result there is significant variation in the rates of funding that charter schools receive, both compared to charters in other districts, and compared to district schools.

b. Formation and Directive of the Illinois Funding Task Force

To further study the issue of charter schools funding, the Illinois legislature, through House Joint Resolution 36 (HJR 36), named a Charter School Funding Task Force, ("the Task Force"), in July 2013. The Resolution noted that challenges remain regarding the education of Illinois' children. The preamble of the Resolution states:

"Whereas, the Budgeting for Results Commission has stated goals of increasing postsecondary graduation among Illinoisans to 60% by 2025 and minimizing achievement gaps between different types of students; and...91% of the students enrolled in charter schools across the State come from low-income families and 95% are minorities, making charter schools a key component to help close the achievement gaps that persist...."

Accordingly, the Illinois Legislature charged the Task Force with the following goals:

- i. "Compile a comparative analysis of charter school funding practices across the United States;
- ii. Examine the current funding provisions in the Charter Schools Law for the purpose of ensuring funding equity, specifically the provision allowing school districts to provide charter schools funding in the range of 75% to 125% of the district's per capita tuition charge;
- iii. Review the effects of state-authorized charter schools on the students served by the charter, the students in the home school district, and the home school district's budget...
- iv. Issue a report making recommendations on any changes to State laws with regard to charter school funding on or before January 15, 2014"

(See the full language of HJR 36 in Appendix T.)

¹ These figures are drawn from the "Illinois State Board of Education 2011-2012 & 2012-2013 Charter School Biennial Report."

Illinois Charter School Funding Task Force Report

The Task Force membership was established by HJR 36, and is comprised of 22 appointed diverse members, including state legislators, representatives of charter schools, teachers' unions, business leaders, charter advocates, and school district officials. HJR 36 called for 24 appointments, but only 22 were made. A full list of the Task Force members can be found in Appendix A. At its first meeting, the Task Force elected State Senator Iris Martinez, and Commissioner DeRonda Williams, of the Illinois State Charter School Commission ("the Commission"), to serve as Co-Chairs of the Task Force. The Resolution explicitly directed that administrative support be provided by the Commission to the Task Force; accordingly Commission General Counsel Lisa Scruggs and Executive Director Jeanne Nowaczewski provided support for the work of the Task Force. The Task Force met a total of nine times on the following dates in Chicago and, in some instances, by video-conferencing with Springfield:

- September 23, 2013
- October 7, 2013
- October 28, 2013
- November 18, 2013
- December 9, 2013
- December 16, 2013
- January 13, 2014
- February 3, 2014
- February 10, 2014

The Task Force meetings were planned with the charge from the legislature in mind and allowed Task Force members to gather and identify issues, analyze relevant data, solicit input from national experts on charter school funding, and formulate the recommendations that are reflected in this Report. The Task Force Meetings were held in public, with agendas and materials posted on the Commission's and the State Board of Education's websites. Over the course of the nine Task Force meetings, members received presentations on charter school funding from diverse groups representing various perspectives including school districts, charter schools, districts that have Commission authorized charter schools, and national experts. A full description of presentations is listed in the bibliography in Appendix B and the full list of meetings and roster of attendees can be found in Appendix C.

The presentations were designed to establish a shared knowledge base for the Task Force members on, among other matters, charter funding in other states, the current situation of charter funding in Illinois, specific charter funding issues in the Chicago Public Schools (District 299), the impact of charter funding on districts in Illinois, and an overview of charter funding best practices from across the nation. The information presented represented diverse view points and backgrounds and Task Force members had the opportunity to repeatedly ask questions of

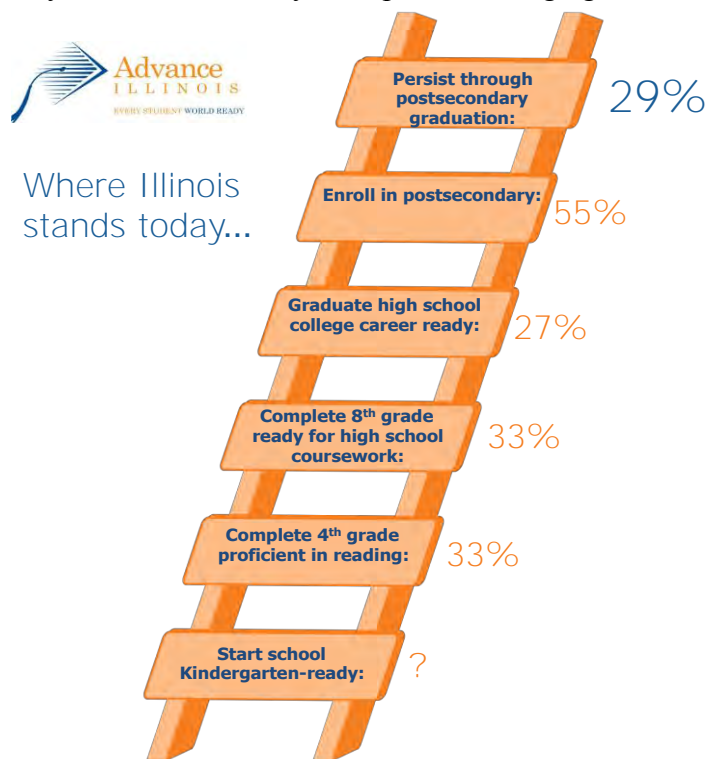
Illinois Charter School Funding Task Force Report

presenters to gather additional information. As much as possible, Task Force members' questions were collected electronically between meetings and answers were provided at subsequent meetings.

The Education of Illinois' Children Continues to Present Significant Challenges

The Task Force has engaged in this work with the belief that the state of education in Illinois presents significant challenges to meeting the State's goal of preparing all children to be ready for college and career. The acknowledgment of the possibility that charter schools can contribute to providing a quality education for the children in Illinois is what originally motivated, in part, the state legislature's enactment of Illinois' charter school law, and is still at the core of legislation regarding charter schools.

The Task Force, thus, followed the directives of HJR 36 to "ensur(e) funding equity" so that the ultimate goal of improved academic outcomes for the State's students can be promoted and met. According to Advance Illinois' 2012 "The State We're In" study, Illinois' public education system is not succeeding for every child. As reflected in the graphic below, only 33% of students complete the 4th grade proficient in reading. By the time students leave 8th grade, only 33% are ready for high school-level coursework. Illinois' high school drop-out rate is 29%; in other words, for every 100 9th graders in Illinois who begin high school, only 71 graduate in 5 years. The trend continues and for those students who do graduate from high school, only 27% are considered college/career-ready. 55% of Illinois students who graduate from high school enroll in postsecondary education but only 29% persist through graduation and obtain a college degree.



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Illinois Charter School Funding Task Force Report

Overview of Charter Schools in Illinois

As noted above, Illinois lags behind many other states in preparing all children to graduate from school prepared for college or a career. This is a difficult challenge to meet and there is no singular solution to the problem. There are, however, several strategies already underway in Illinois to address these issues, including, for the past 18 years, the establishment and growth of high quality charter schools. In Chicago, charters serve a greater percentage of minority and at-risk students compared to CPS. In 2013 charters in Chicago served students who were 98.2% minority versus 90.9% for CPS. Chicago charters also serve a greater percentage of students from low-income households compared to the district: 90.4% versus 84.9%, respectively. In 2013, approximately 13.6% of students in District 299 attended a charter school.

With regard to high school graduation and college attainment based on student performance on the most widely used college readiness test, the “ACT”, in 2013, 11 of the top 11 non-selective high schools in CPS were charter schools (two charters tied for 10th place). Though even the top-performing charters fall short of meeting national college-ready standards, (i.e., a score of 21 on the ACT). In 2013 charters in Illinois posted a Five-Year Cohort Graduation Rate of 66.4% (66.9% for charters in Chicago)².

In 2013, Stanford University released its analysis of academic achievement of charter schools nationwide: The 2013 National Charter School Study (“the CREDO report”). The CREDO report, which was informed through a research partnership with the Illinois State Board of Education, studied the impact of charter schools on student learning and found academic gains for certain groups in Illinois charter schools. In particular, the CREDO report noted that students in Chicago charter schools showed gains in learning equal to an additional two weeks of reading instruction and an additional month of math instruction when compared to their traditional public school counterparts.

Overview of State Authorized Charter Schools

The Task Force has been explicitly directed to examine the “effects” of the four (4) charter schools authorized by the Illinois State Charter School Commission. Southland College Prep Charter High School serves a student population of 500 in grades 9 through 12 that is 95% African American, with 60% of students eligible for free or reduced-price lunch, and 9.5% of students reporting disabilities. According to the 2013 School Report Card issued by the State Board, Southland achieved 47% ‘meets/exceeds’ on the Prairie State Achievement Examination in 2013, the first year the test was administered at the school. The Commission also oversees Prairie Crossing Charter School, a K-8 school of 391 students in Grayslake. Prairie Crossing, with a student population that is 76% Caucasian, 2% low-income, and 13.8% students with

² All demographic and academic performance data in the above section is from the “Illinois State Board of Education 2011-2012 and 2012-2013 Illinois Charter School Biennial Report.”

Illinois Charter School Funding Task Force Report

disabilities, achieved 97% ‘meets/exceeds’ on the Illinois Standards Achievement Test. Finally, the Commission’s two other charter schools, Concept’s Horizon Belmont Academy, (serving 289 students in grades K-5), and McKinley Park Academy, (serving 432 students in grades K-8), opened in September 2013, and have not yet posted standardized test scores.

3. RELEVANT ILLINOIS CHARTER LAW PROVISIONS

In planning its meetings, in collecting and considering the information presented, and in drafting recommendations, the Task Force considered its work in the context of a number of relevant sections of Illinois Charter Law including those provisions related to economic soundness, distribution of funds, and funding levels, among others. This Report makes references throughout to relevant sections of the Charter Law and considers the research and recommendations included herein in the context of that law. A full list of the relevant provisions from Illinois’ law can be found in Appendix D.

4. NATIONAL PERSPECTIVE ON CHARTER SCHOOL FUNDING

a. Analysis of Charter Funding in Featured States

As part of its legislative directive, the Task Force considered and analyzed charter practices nationally. Charter schools have been in existence nationally for more than 20 years, and currently, 42 states have enacted charter school laws. Across the nation, approximately 6,000 charter schools are in operation today and are educating nearly 3.2 million students. There are many similarities in the laws of these states, but also some key differences. This section provides an overview of the variations in charter funding nationally and a deeper look at the laws in a select number of states.

The Task Force received a presentation by Todd Ziebarth, a Task Force member and a Senior Vice President at the National Alliance for Public Charter Schools, on key findings from two comprehensive national studies on charter school funding. An overview of findings from Mr. Ziebarth’s presentation is included below, along with links to the full report (hyperlink from report titles). Executive summaries from the reports can be found in Appendices F and G. The Task Force looked for national studies on charter school funding from a variety of sources including State Boards of Education and the U.S. Department of Education and found the non-governmental studies referenced below to be the most comprehensive. In addition to the reports discussed in detail in this section, the Task Force also considered a study by Western Michigan University in 2010, called “Equal or Fair?” (See Appendix H). Finally, the Task Force received a briefing on an on-going national study regarding charter school funding scheduled to be published later in 2014, an update on which is provided in Appendix I.

Illinois Charter School Funding Task Force Report

- [“Charter School Funding: Inequity’s Next Frontier”](#) was published by the Thomas B. Fordham Institute in 2005, (“2005 Fordham Report”). The 2005 Fordham Report studied charter school funding at the state level, (16 states and the District of Columbia). Key findings from that report included that, on average, charter schools receive 78.3% of the funds that their district counterparts receive. This disparity amounted to approximately \$1800 less per pupil in the charter schools. The 2005 Fordham Report also considered funding at the city level, (27 cities surveyed), and found that charter schools fared even worse in that comparison, receiving only 76% of the funds of their district counterparts. This disparity amounted to approximately \$2200 less per charter student.
- [“Charter School Funding: Inequity Persists,”](#) (“2010 Ball State Study”) was published by Ball State University in 2010 and examined charter funding at the district and state levels. Key findings from this report highlighted significant disparities between charter and district funding. At the state level, (24 states and District of Columbia), charters received a higher percentage of funds on a per pupil basis than they received 5 years earlier: 81% of what district students receive. However, the disparity in the dollar amount found by the 2010 Ball State Study was greater, amounting to \$2200 less per charter student. In reviewing funding for charter schools in 40 cities, the 2010 Ball State Study found charters receive only 72% of the funds or \$3,700 less per pupil on average in the cities studied.

In addition to gathering a high-level, national perspective on charter school funding, the Task Force also considered information and data from four specific states that have demonstrated practices aligned to ensuring equity in charter school operational funding policy over the past decade - that is, those states that have ensured that an equitable amount of operational dollars have followed students from a traditional public school to a public charter school. Illinois, like many states, has a unique funding methodology for charter schools and as such, there is no exact comparison to study. To account for that, the Task Force examined a selection of states that represented a mix in terms of size and geography and that demonstrated equitable practices which the Task Force could use to form its own recommendations. There are certainly other states that are similar in size to Illinois or that have equitable funding, however, in order to conduct a more in depth study and to maintain alignment to the Task Force’s goal of ensuring funding equity the Task Force focused on four states.

The Task Force examined two Midwestern neighbors to Illinois: Indiana and Michigan. While the size of each state's charter sector varies as compared to Illinois (Indiana's is about half the size, while Michigan's is twice the size), they both allow schools to be authorized by district and non-district entities, somewhat like Illinois. The Task Force also studied two non-Midwest states: Louisiana and New Mexico. While Louisiana's charter sector is about 80% the size of

Illinois Charter School Funding Task Force Report

Illinois' and New Mexico's is about 65% the size of Illinois', they also both allow schools to be authorized by district and non-district entities, somewhat like Illinois.

The Task Force examined each of these four states' charter funding laws and compared them to Illinois' funding provisions. The chart below provides an 'at-a-glance' look at the charter environment in these states and the relevant provisions of these states' charter laws can be found in Appendix K.

Overview of Featured States Analysis				
State	Population	Number of Charters	Authorizer(s)	Per Pupil Funding
Indiana	6.5 million	75	Multiple first look authorizers	Same formula for district and charter
Louisiana	4.6 million	103	Multiple first look authorizers	Same formula for district and charter
Michigan	9.9 million	280	Multiple first look authorizers	Lesser of two state funding formulas
New Mexico	2 million	96	Multiple first look authorizers	Not less than 98% of the school-generated program cost
Illinois	13 million	64 (143 campuses)	In Illinois only local districts can authorize in the first instance; the Commission can authorize only on appeal	75%-125%

i. Indiana

Indiana, with a population of approximately 6.5 million, currently has 75 charters statewide and these charters are designated as their own Local Education Agency (LEA). Indiana state law provides that a variety of entities are able to call for and authorize charter schools in the state, including local school boards, public four-year universities or their designated representative, the Mayor of Indianapolis, a state charter board, and a nonprofit college or university that provides a four-year educational program for which it awards a baccalaureate or more advanced degree. State law in Indiana, (See Appendix K for relevant provisions in the law), requires that public charter schools adhere to the same funding formula as traditional public schools and receive their

Illinois Charter School Funding Task Force Report

funding at the same time and in the same manner as the state provides funding to school districts. Indiana law allows all authorizers except local school boards to withhold up to 3% of a school's funding as an administrative fee.

ii. Louisiana

Louisiana, with a population of approximately 4.6 million, has 103 charter schools operating statewide, of those charters some are designated as LEAs while others are a school within an LEA, depending on the authorizer. Authorizers approved by Louisiana state law which can call for and authorize charters in the first instance include local school boards, the state board of education, and local charter authorizers. In Louisiana, charters receive the same revenue using the same funding formula that is used for local school districts. (See Appendix K for relevant provisions in law). Authorizers are permitted to assess an annual authorizing fee to charter schools of 2% of per-pupil funding to cover costs associated with the authorizing and oversight of those schools.

iii. Michigan

Michigan, with a population of nearly 9.9 million, has 280 charter schools in operation and each charter is its own LEA. Local school boards, intermediate school boards, community colleges, and public state universities all have authorizing power in the first instance according to Michigan's state charter school law. Charter schools in Michigan receive the lesser of the two state funding formulas: the foundation grant amount of the local school district or the foundation allowance of \$7,160. (See Appendix K for relevant provisions in law). The law also provides for authorizers to receive an administrative fee of up to 3% of the total state school aid received by charter schools.

iv. New Mexico

There are 96 charter schools open in New Mexico, which has a total state population of approximately two million. Like Louisiana, charters in New Mexico can either be their own LEA or a school within an LEA, depending on the authorizer. Both local school boards and the state Public Education Commission have first-level authorizing power pursuant to New Mexico state law. State law in New Mexico stipulates that charter schools must not receive less than 98% of the school-generated program cost. (See Appendix K for relevant provisions in law). The State of New Mexico also permits an authorizing fee and allows an authorizer to withhold 2% of the school-generated program cost to use for costs associated with authorizing and oversight of its charter schools.

Illinois Charter School Funding Task Force Report

v. Comparison to Illinois

There are currently 64 charters representing 143 campuses in Illinois which has a total state population of nearly 13 million. In Illinois, only school districts have the authority to call for and authorize charter schools in the first instance. There is a State Charter School Commission, but the Commission cannot issue a request for charter applications and can only authorize a charter school on appeal after the local district has denied or failed to act in a timely manner on a charter school proposal. Charter schools authorized by a school district become a school within the authorizing district's LEA, whereas charter schools authorized by the Commission are their own LEAs. The funding formula of charters schools is discussed in greater detail in subsequent sections of this Report, but allows districts and the Commission to determine a rate of funding between 75% and 125% of the host school district's Per Capita Tuition Charge. The law permits an authorizer fee of up to 3% for Commission authorized schools but does not explicitly address the issue of a fee for district authorized schools.

b. Analysis of Per Capita Funding Issues

One of the issues that the Task Force studied was whether Illinois' funding range of 75%-125% was too broad. Illinois' range for payment of the per capita amount to charter schools is an anomaly among all other states, and may lead to inequitable funding for Illinois' charter schools. Some states set a minimum funding level that is significantly below the district funding level such as New Hampshire which requires a minimum of 80% funding. Very few states with charter schools permit a wide range and none allows for a range as broad as 50%, as is the case in Illinois. The majority of states adhere tightly to a formula that purports to provide an equitable amount of funding, keeping the range near, or within 5% of, the 100% funding level. Most states set by law a clear, fixed formula for charter school funding that aligns closely with the funding received by the school districts.

Further, most of these 42 states are more explicit regarding the assessment of an authorizer fee by all authorizers in the state. Illinois, by contrast, provides for an authorizer fee to be administered by the Commission (see Section 27A-7.5(j) in Appendix D), but it does not explicitly address an authorizer fee for district authorizers.

The Source of Funding For Public Schools in Illinois: Local Property Taxes

Like most states across the country, Illinois funds its public schools through a combination of local, state, and federal dollars. In Illinois, local revenues consist of local property taxes and the Corporate Personal Property Replacement Tax (CPPRT) Revenues. The CPPRT is a state-collected tax on the net income of business and the invested capital of public utilities and is distributed to local taxing bodies in proportion to the relative share of business taxes they

Illinois Charter School Funding Task Force Report

received before Illinois prohibited the tax in 1979. These local property tax dollars are the primary and dominant source of funding for public schools. Further, as many law suits over the past decade in Illinois and other states have highlighted, the use of property taxes to fund schools results in significant funding discrepancies across the state: Illinois is no different. In Illinois, the PCTC ranges from as low as \$1,500 to approximately \$26,000 in some districts.

The Source of Funding for Public Schools in Illinois: State Sources

The State also contributes to the funding of all public schools in Illinois, primarily through General State Aid (GSA), as well as mandated categorical funding such as bilingual and early childhood education, in addition to other state grants. In allocating its funding of GSA, the State Board of Education is required by law to consider several factors and employ multiple methodologies. Each district or school is guaranteed a foundational amount of aid from the State. Specifically, 105 ILCS 5/16-8.05(b) (1) states: *“The Foundation Level is a figure established by the State representing the minimum level of per pupil financial support that should be available to provide for the basic education of each pupil in Average Daily Attendance. As set forth in this Section, each school district is assumed to exert a sufficient local taxing effort such that, in combination with the aggregate of general State financial aid provided the district, an aggregate of State and local resources are available to meet the basic education needs of pupils in the district.”* Additional dollars distributed by the State reflect the district’s local sources of funding as well as the concentration of students living in poverty. These additional considerations serve as the basis by which the State Board of Education attempts to annually “equalize” funding, or at least, remediate in some manner, the effects of poverty, across the 862 districts of the State of Illinois.

The Source of Funding for Public Schools in Illinois: Federal Sources

The Federal Government also contributes funds to support public education. These funds are often provided to the State to deliver based on block grants or other methodologies. Additionally, the Federal Government sometimes offers program-specific grant opportunities for which only Local Education Authorities (LEAs) can apply. An LEA is a federal term that is largely synonymous with a local school district.

Special Funding Issues for Charter Schools in Illinois Related to State and Federal Dollars

With regard to funding for charter schools in Illinois, the State also provides reimbursements for mandated “categoricals” and state grants if the charter school is providing programs and services to eligible students. Charters in Illinois receive access to federal dollars through reimbursement from the state for eligible students. This includes funds for Title I, Title II, Individuals with Disabilities Education Act, National School Lunch Program, and Career and Technical Education.

Utilizing the Per Capita Tuition Charge in Illinois as a Basis for Charter School Funding

Illinois Charter School Funding Task Force Report

Funding for charter schools in Illinois is calculated based, by law, (see Appendix D) upon the host district's Per Capita Tuition Charge. According to the State Board, which is responsible for determining and publishing annually, the PCTC for every Illinois district, the Tuition Charge is defined as:

“The amount a local school district charges as tuition to nonresident students as defined by Sections 18-3 and 10-20.12a of the School Code. The per capita tuition charge is determined by totaling all expenses of a school district in its Educational, Operations and Maintenance, Debt Service, Transportation, Municipal Retirement / Social Security, and Tort Funds for the preceding school year less expenditures not applicable to the regular K-12 program (such as adult education and summer school), less offsetting revenues from state sources , except those from the Common School Fund, less offsetting revenues from federal sources except those from federal Impaction Aid, less revenues from student and community services, plus a depreciation allowance and dividing this amount by the nine-month ADA for the year.”

As noted earlier, the Illinois charter schools law states that charter schools must be funded at a level that is between 75% and 125% of the host district's PCTC.

PCTC is a funding formula that the State Board of Education uses to quantify the amount a school district pays from its own resources for each student. The formula is as follows:

$$\frac{\text{(District's total operating expenses - offsetting receipts and revenues)} \\ \text{+ an allowance for depreciation}}{\text{(divided by)}} \\ \text{District's nine-month Average Daily Attendance (ADA).}$$

The PCTC is calculated by the State Board of Education as part of each District's Annual Financial Report (AFR). Because of the State Board's timeline for collecting audited financial data from each Illinois school district, reviewing the data, and finalizing the AFRs, charter schools are always paid based on audited financials from two fiscal years prior. As an example, the State Board collected the FY2012 AFR from each school district in November 2012. The State Board then reviewed and finalized the AFRs, including each school district's per capita tuition charges, in January and February of 2013 (midway in FY2013). FY2013 ended June 30, 2013. Most charter schools began their 2014 school year in August or September of 2013. Thus, for school year/fiscal year 2014, the most recent finalized AFR data would be from FY2012, and payments to charters are based on those numbers. See Appendix L for further information on the State Board's PCTC calculation.

Illinois Charter School Funding Task Force Report

The PCTC is also used by the State Board and others for the following purposes:

- Tuition for non-resident pupils.
- Children attending classes in another district.
- Children attending private schools, public out-of-state schools, public school residential facilities or private special education facilities.
- Funding for children requiring special education services.
- Special Education Classes for Children from Orphanages, Foster Family Homes, Children's Homes, or in State Housing Units.
- Tuition of children from orphanages and children's homes.

Consideration of an Alternative to PCTC

An exception to PCTC as a basis for charter payments is proposed in the Per Capita Funding Range Recommendation in Section 6 of this Report. The recommendation considers two alternatives to PCTC: the Charter Funding Calculation (CFC) and Student Based Budgeting (SBB). A working group within the Task Force was formed to study alternative funding methodologies for charter schools. The group included representatives from Chicago Public Schools, Advance Illinois, Chicago International Charter Schools, the Batavia School District, the Illinois Network of Charter Schools and the State Board. The solution that emerged is described in further detail in Section 6 of this report and aims to address limitations in achieving funding equity that arise from using PCTC that were noted by CPS and CICS. The State Board noted in a submission to the Task Force its objection to deviating from PCTC as the method for calculating charter payments. At this time, District 299 is the only district statewide that employs SBB and, at the time of this report, was in year one of its implementation. CFC would be an entirely new method for calculating payments to charters. The methodologies for SBB and CFC are presented in Appendix O. For further analysis of the effects on schools of moving to a new funding methodology, the working group ran sample analyses of funding levels under the proposed CFC or SBB calculations. That information can be found in Appendix P.

c. Analysis of Facilities Funding Issues

Illinois' current charter school law presently contains no provision for facilities funding for charter schools, with a few minor exceptions including provisions for the negotiation between a charter and a district or other state agency for the use of space to locate a school and any associated rent (105 ILCS 5/27A-5(h)). Yet, the 2010 Ball State study presented to the Task Force concluded that the chief driver of the inequitable disparity between funding for district schools and charter schools was charter schools' lack of access to local and capital dollars. The Illinois Facilities Fund, a Chicago-based, nationally recognized nonprofit Community Development Financial Institution concurred with the findings noted above. The IFF, which supports nonprofits, including charter schools, through loans and real estate consulting, noted in

Illinois Charter School Funding Task Force Report

a letter to the Task Force that facilities continue to be the largest obstacle to charter school establishment and growth and that the lack of facilities funding for charters continues to disadvantage charter students by forcing the school to divert operational dollars to cover capital expenses – a diversion not necessary in district schools. The full letter from IFF is included in Appendix S.

To better understand the issue, the Task Force again followed its charge and looked to other states to see how they are addressing the issue of facilities inequity. The national survey of state charter laws revealed that some states are attempting to address the inequity in the access to facilities and facilities financing with a variety of different measures.

The Task Force examined the different legal remedies being piloted in other states, and observed the following practices geared toward funding equity in this area including:

- i. **Providing direct funding to charter schools for the cost of their facilities:** Some authorizers provide access via a direct payment for facilities. (In D.C. this payment is \$2,940 per pupil.) Others provide a state-run facilities grant program. (New York State has contributed ~\$3.1 million to its facilities grant.)
- ii. **Allowing charter schools to borrow additional dollars at better rates:**
 - a. Public Charter School Facility Revolving Loan Program: Utah law provides for a charter school revolving loan fund that provides loans to charter schools for the costs of constructing, renovating, and purchasing charter school facilities. This fund is capitalized at ~ \$6,000,000.
 - b. Bond Financing: Connecticut has provided \$20 million in bond financing to support charter school facilities, dispersed through a competitive application process.
 - c. Credit Enhancement: Colorado provides a mechanism for limited credit enhancement for eligible, highly rated bond transactions by charter schools by using the state’s “moral” obligation to back up to \$400 million in debt.
- iii. **Mandating equal access to district and state surplus buildings and existing state facilities programs:**
 - a. In Indiana, the law requires school districts to provide a list of buildings that are closed, unused, or unoccupied for a period of two years to the state Department of Education and make these buildings available for lease for \$1 a year or purchase for \$1 to any charter school.
 - b. In Colorado, the law allows charter schools to apply for competitive grants from the state’s public school facility financing program and provides state loans for qualified schools to meet any required matches under the state’s public school facility financing program.

Illinois Charter School Funding Task Force Report

5. ANALYSIS OF CHARTER FUNDING AMONG ILLINOIS AUTHORIZERS

In most instances, charter school authorizers in Illinois start by providing each charter school its funding based on the school's enrollment multiplied by an allowable percentage of the PCTC, usually on a quarterly basis. In some instances the district and charter will negotiate the provision of additional funds, or services or goods, such as transportation and food services. These funds may be paid out of the per-pupil amount, or other arrangements may be made. See Appendix D for relevant citations related to the method and terms of charter funding in Illinois.

Range of PCTC Percentage Currently Utilized by Illinois Charter Authorizers

An analysis of funding rates conducted by the Illinois State Board of Education for purposes of this Task Force study, found that, generally, funding levels for charter school authorizers in Illinois are within the 75% and 125% range stipulated by law. While the final PCTC percentage for CPS has not been verified, CPS has submitted data on its funding levels based on PCTC to the Task Force (Appendix M) and the State Board has been working closely with the district to understand and verify their funding levels. The chart below lists funding rates for each district with a charter school in Illinois.

Authorizer	FY12 PCTC	# of Charters	PCTC % to charter schools
Beardstown CUSD 15	\$6,974	1	87%
City of Chicago SD 299	\$9,462	47	X ³
Community Unit School District 300	\$8,349	1	100%
Decatur SD 61	\$9,056	1	100%
East St. Louis SD 189	\$12,050	2	75%
Jacksonville SD 117	\$7,566	1	82%
McLean County USD 5	\$8,407	1	100%
North Chicago SD 187	\$11,555	1	100%
Peoria SD 150	\$9,710	1	85%
Rockford SD 205	\$8,529	3	100%
Springfield SD 186	\$9,937	1	75%
State Charter School Commission	Varies	4	100%

³ CPS presented internal analyses to the Task Force indicating that, on average, the district funds its charter schools at different levels within the 75%-125% range and that on average the funding is approximately 97% of PCTC. That data is presented in Appendix M. A counter to this analysis was prepared by INCS and is included as Appendix N. The State Board has not verified the data in either submission.

Illinois Charter School Funding Task Force Report

As stated in Section 4.a. above, the nationwide analysis shows that on average, charters are funded at a lower rate than their district counterparts and this trend appears to hold true in Illinois.

a. Analysis of Charter Funding in District 299

Chicago currently has 126 charter campuses operating under 47 charters. Chicago Public Schools (CPS) is by far the largest school district in the State of Illinois, and the largest authorizer of charter schools (there are only 17 non-CPS authorized charters statewide). Given the size and complexity of District 299, and its budget, there are issues related to the funding of charter schools that are unique and worthy of special consideration in this Report. The Task Force received presentations from CPS, The Illinois State Board of Education and the Chicago charter community which highlighted the funding complexities and discrepancies in Chicago. The Illinois Education Association and the Chicago Teachers' Union also presented information on these funding issues.

CPS has been engaged in ongoing conversations about funding equity and transparency with the charter community and has increased and focused those efforts through their participation in the Task Force. Specifically, CPS has recently transitioned to a Student-Based Budgeting (SBB) methodology for the distribution of core instructional dollars to all schools, including charters. By using SBB, District 299 is, by definition, not using PCTC to calculate its payments to charter schools. District 299 presented information to the Task Force stating that PCTC is not a practical methodology for allocating resources in a district as large and complex as District 299. District 299 noted several reasons for its decision to move to SBB including the two year lag that results from PCTC, the lack of flexibility to allocate resources based on student needs and district priorities, and the reduced ability to target funds to students in poverty.

b. Analysis of Funding for Commission Authorized Schools

In Illinois, only local school districts may authorize charter schools in the first instance. The Illinois State Charter Commission may only authorize schools on appeal, and not in the first instance of application. Approximately 95% of charter schools in Illinois are authorized by districts and CPS alone has authorized nearly 78% of the charter schools in the state.

Presently, the Commission is the authorizer for only four schools in Illinois, or approximately 6% of all charter schools in Illinois. Two of these schools were transferred from the authorization jurisdiction of the State Board to the Commission in 2012 by the law which created the Commission, and two were authorized directly on appeal in 2013.

The funding methodology for the two types of authorizers, (districts and the Commission), is the same in Illinois law and both must adhere to the 75% to 125% PCTC range. Both authorizers are obligated to pay for the education of the children who choose to attend a charter school based on the funding methodology in Illinois that relies on local property taxes as the basis for public

Illinois Charter School Funding Task Force Report

education funding (Section 4.b. above). Thus, when a district pays for a charter school it has authorized, it is using its local property tax dollars, diverting them from the traditional public school system to the school that the parents and child have chosen: the charter school. At its essence, the theory behind charter school funding is that the local property tax funding follows the child to the public school that the family has chosen, whether a traditional public school or a charter.

The only difference between district-authorized charter schools and state-authorized charter schools is the exact source of the local funding for those children of taxpayers in that district. When the district authorizes the school, it sends payments for those children attending the charter schools directly from its property tax revenues, or whatever other alternative revenues the district chooses to utilize, to the charter schools. In the case of state-authorized schools, which in Illinois are authorized over the objection of the district on appeal, the state legislature chose by law to require the payments to be made by the State to the charter school on behalf of the district. While the State could have chosen to “bill” the district for the funds from its property tax revenues, it instead takes the same amount from a funding source it controls, which is the General State Aid. The district keeps the property taxes paid by the families of the students who attend the charter school. This is set forth in **Section 27A-9(f)** which states “...*The State Board shall withhold from funds otherwise due the district the funds authorized by this Article to be paid to the charter school and shall pay such amounts to the charter school.*”

The directives to the Task Force included a requirement that this funding methodology be examined, particularly with respect to its impact on the host district.

Access to Local Tax Dollars, or their Equivalent, for Schools Authorized by Non-District Authorizers

The issue of funding charter schools using local dollars when the schools are not authorized by the local district is not unique to Illinois. In fact, many other states are presented with this situation, when there are diverse authorizers with the ability to authorize new charters statewide without prior approval from the local district. For example, in Indiana, only four of the state’s charter schools were authorized by local authorizers and in New Jersey all charter schools are authorized at the state level.

Accordingly, across the 42 states with charter laws, there are examples of how states use their laws to guarantee equity to students whose families have chosen to attend schools authorized by the state or other non-district entity, such as a university, rather than by the district. This section of the report provides a quick survey of these laws, and what Illinois can learn from them.

In the information reviewed for all states studied, the Task Force presentations showed that state authorized charters typically have full access to state-generated operating dollars. However,

Illinois Charter School Funding Task Force Report

access to local operating (usually property tax) dollars was found to be an administrative challenge to some of these schools, particularly in the collection of funding amounts available. States' approaches attempting to ensure timely and equitable access to local district tax dollars for state-authorized charter schools vary.

For instance, in Louisiana and Indiana, the states provide non-district-authorized charter schools access to some local dollars and require districts to send directly to the non-district-authorized charter schools the local funds, (i.e., in most instances, property taxes), to which they are entitled. See Appendix K for the relevant legislation.

In Colorado, non-district-authorized schools are not given direct access to local funds such as property taxes, and districts are not required to pay the state authorized charters from the local property taxes that support the rest of the public schools in the district. In states where the districts are not required to pay the charters directly from the local property taxes, the state replaces these local dollars with other existing state funds to which the states have access and can control. Usually, these states direct a portion of the district's share of the state's "poverty fund equalizer payments" equal to the amount of the local share tax dollars for the non-district-authorized charter schools. This method is used by some states because it is believed to be the only certain way that the state can guarantee that the state-authorized charter schools fully receive in a timely manner the payments for the students they are educating who reside in that district and, thus, for whom the district is financially responsible.

An analysis by the Illinois State Board of Education for purposes of this Task Force, showed that in Illinois charter schools authorized at the state level were historically funded at the 100% PCTC rate of the schools' respective host districts to ensure equity for students at district and charter schools in the area. The schools were paid by the State Board for the past 15 years in the case of Prairie Crossing and for the past 3 years for Southland, and the Commission's two newly authorized schools which opened in 2013 were both contracted to receive 100% of the host district's PCTC as well, by vote of the Commission in March, 2013.

To make payments to Commission authorized schools, the State Board of Education is mandated by Illinois law, (see Section 27A-9(f) in Appendix D), to withhold funds from the resident district's General State Aid payments pursuant to the formula of enrollment multiplied by PCTC noted above, and to make these quarterly payments directly to the Commission authorized charter school. Meanwhile, the host districts keep the property taxes generated by these students and their families.

The State Board of Education for Illinois also collects monthly attendance data for each Commission-authorized charter school at the end of the school year. In order to be most fair to the district, this figure is combined with the attendance at the appropriate resident district to

Illinois Charter School Funding Task Force Report

properly “inflate” such district’s General State Aid claim in preparation for then taking out the charter school’s quarterly per capita tuition payments in the following fiscal year.

Impact of Commission Authorized Schools on Host Districts

To assess the impact of state-authorized charter schools on their host districts, the Task Force considered reports from Woodland District 50, the Southland Charter School, and the current judicial interpretation of this provision of the Illinois Charter School Law.

The Task Force received and considered information submitted by Woodland District 50, from which the Prairie Crossing Charter School draws students, in its November meeting, and from the Southland Charter School at the December 16, 2013, meeting. The information submitted by District 50 set forth the economic impact it has experienced due to the Commission authorized school. In a letter and subsequent presentation to the Task Force, District 50 stated that the charter school was impacting the fiscal soundness of the district because approximately \$3 million of state aid are diverted from the district annually to fund the Prairie Crossing Charter School. The District also noted in its letter to the task force that the result of the loss of state aid has been the reduction of 70 staff members, delayed technology and curriculum updates, and the inability to provide after school programming for low-income students. The submission from Woodland District 50 can be found in Appendix R.

As one recommendation for changing this impact, Woodland District 50 called for direct state funding of Commission authorized schools and stated that “state dollars received per student by the local school should follow the student to the state chartered school and the state should bear the financial responsibility as the chartering entity to fund the balance of the tuition cost.” This proposal is reflected in HB 2660, which was presented to the Illinois legislature in the spring of 2013 but then withdrawn. Elements of this proposal were included in recommendations offered to the Task Force.

The Southland Charter School and Impact on the Host District

At its December 16, 2013 meeting the Task Force received a report from Southland as well as a presentation from the Superintendent of District 162 and CEO of Southland College Prep, Dr. Blondean Davis who is also a member of the Task Force. Southland College Prep is a charter high school that was created by an elementary district (District 162) to provide an alternative high school option to the families in the district. The report submitted to the Task Force highlights the unique circumstances of the charter school’s creation as well as the ongoing partnership between the charter school and the elementary school district. The full submission from Southland is included in Appendix Q.

The report submitted by Southland College Prep set forward a recommendation for the funding of Commission authorized charter schools. The report recommends that the Commission

Illinois Charter School Funding Task Force Report

authorized schools receive “no less than 100% of the PCTC spent to educate students in the school district, with this funding being provided via the re-allocation of State aid from the school district to the charter school in the full amount necessary to provide 100% of the PCTC for each student who enrolls in the charter school.” The Southland submission notes that even with funding at 100% of PCTC, charter schools still receive less funding than their district counterparts because they do not have access to capital dollars. In the instance of Southland College Prep, the charter school’s lease and utilization of its facility was only made possible through a strong and symbiotic relationship with District 162. The Task Force also received a letter of support for this recommendation from the Prairie Crossing Charter School which is also included in Appendix Q.

Rich Township Case and Its Holding Regarding the Economic Soundness Provision and the Question of Impact on the District

In addition to receiving presentations and information from districts impacted by State Authorized charter schools, the Task Force also looked to relevant case law, and was briefed by counsel on the opinion and holding of the Illinois Appellate Court of the First Circuit, in the matter of Board of Education of Rich Township District 227 v. Illinois State Board of Education, et al, 2011 IL App (1st Circuit), 110182. In the Rich Township case, the high school district in which the Southland Charter School proposed to be located and from which the per capita funding would be withdrawn to support the Southland school, because that is where the Southland students lived and paid taxes, sued the Illinois State Board of Education and the Southland school, arguing that the State Board’s authorization of the school was improper.

In the case, the court found that the State Board’s Superintendent had examined the operating funds and budget for the District and, finding that the District had no short term debt outstanding, had determined that a sufficient fund balance existed in the District such that reallocation of funds to the Charter would leave both the district and the charter school financial solvent and secure. The Superintendent additionally took note of the District’s ability to adjust its staffing and expenditure levels downward following migration of the students to the Charter. The State Board’s decision was upheld by the trial court and affirmed by the appellate court. The appellate court quoted the Illinois Supreme Court as follows: “We do not hold that any school district experiencing a budget deficit may deny a charter school proposal with impunity.” Further, the appellate court stated that “to allow a local school board to deny a charter proposal because it may have an adverse financial impact on the district’s budget would defeat the purpose of the statute, which is to create choice and thus competition.” See the Rich Township case, which is attached in full in Appendix D.

6. RECOMMENDATIONS OF THE TASK FORCE

Illinois Charter School Funding Task Force Report

Process for Developing Recommendations

After reviewing all of the information presented to the Task Force, Co-Chairs Martinez and Williams developed an initial draft of recommendations and provided it to the full Task Force for review. Over the course of several meetings from December 2, 2013 through February 10, 2014, the Task Force dedicated its public meetings to discussing the merits of these individual recommendations and subsequent recommendations offered by Task Force members themselves, as well as the content included in the report. Following each meeting, the report and its recommendations were revised to reflect the comments received from the Task Force members. Updated versions of the report were distributed at each subsequent meeting and included a guide to the revisions made.

At the January 13 and February 3, 2014 meetings the Task Force reviewed and considered in detail the voting process to be used for reaching final recommendations. The Task Force received guidance during that process from counsel, Lisa Scruggs. Feedback was received on the voting rules presented and a vote to approve those rules was held during the February 3, 2014 Task Force meeting. A full list of the approved voting rules can be found in Appendix E.

It is important to note when considering the recommendations presented in this report, that other work addressing similar issues was being done at the same time that this report was being compiled. Specifically, Senator Manar's Senate Education Funding Advisory Committee, the product of Senate Resolution 431, recently issued a report that makes a series of recommendations related to all public school funding in Illinois. Most significantly, the Committee recommends a single funding formula under which 96 percent of state operational dollars for education would flow through such formula. Within this formula, district funding would be based on measures of student attendance—using the state's current method—and the funding would be equalized depending on each district's relative wealth. High-need student populations would be provided additional funding through the new funding formula; specifically, through a system of additional weights provided to students in each group. The goal is greater equity in school funding and a more transparent system of funding at-risk student groups. If these recommendations are adopted, the new funding system could address a number of the funding concerns raised by the members of the Charter Funding Taskforce, especially those concerning the calculation of the per pupil charter funding amount.

Structure and Purpose of Recommendations

The recommendations set forth in this section reflect the intent and goals of the legislature in establishing this Task Force as stated above in Section 2.b. of this report. The Task Force was presented with several options for each recommendation to consider at its February 10, 2014 voting meeting. The recommendations listed below include only those recommendations that passed with a majority vote of task force members and reflect all amendments added to the

Illinois Charter School Funding Task Force Report

recommendations during the voting process. It is the goal of the Task Force that the recommendations provided in this report serve as possible amendments to Illinois' current charter law or as guidance to legislators in drafting possible future amendments. As such, most recommendations are structured to align to existing sections of the Illinois charter law and relevant citations are included. In instances where a recommendation proposes a *new* section of the law, this is made clear as well.

A full list of all proposed recommendations and the final votes on each can be found in Appendix U. Appendix U records every recommendation considered by the Task Force using a numbering system representing the order in which the proposed recommendations were presented to the Task Force and voted upon, i.e., A1, A2, B1, B2, etc. For ease of reference herein the recommendations adopted by the Task Force are referred to as Recommendations I through XII, thus representing the final twelve recommendations adopted by the Task Force.

A. Per Capita Funding Range Recommendations

The first directive to the Task Force was that it should: “*Examine the current funding provisions in the Charter Schools Law for the purpose of ensuring funding equity, specifically the provision allowing school districts to provide charter schools funding in the range of 75% to 125% of the district’s per capita tuition charge.*” (emphasis added)

Current Illinois Law:

Section 27A-11(b) states that: “*In no event shall the funding be less than 75% or no more than 125% of the school district’s per capita student tuition multiplied by the number of students residing in the district who are enrolled in the charter school.*”

In developing this recommendation the Task Force considered a broad base of evidence including an in-depth analysis of the PCTC calculation’s history, methodology, and applications. The Task Force also weighed the relative merits and drawbacks of the calculation in an effort to determine its effectiveness in providing equitable funding to charter schools. Members considered that the PCTC calculation is well-established with a long history of use for funding charter schools and that it is an amount verified and published each year by the State Board. The Task Force also heard from Commission authorized charter schools who stated their support for continuing to be funded based on PCTC. The Task Force, however, also heard reports from a working group within the Task Force that highlighted flaws and limitations in the current calculations used to fund charters. This group presented an alternative calculation to address those deficiencies. These considerations are reflected in the final recommendations for changing the use of the Per Capita Tuition Charge, which the Task Force believes will provide more equitable funding to charter schools.

Illinois Charter School Funding Task Force Report

Recommendation I: Adopt Proposed Amendment Permitting Funding Based on Student Based Budgeting or Charter Funding Calculation

The Task Force heard presentations from CPS, the state’s largest charter authorizer, about its work to achieve funding equity for all of its schools through the use of Student Based Budgeting (SBB). Through the SBB calculation every student receives an equal base amount of funding and then the percentage of supplemental funds to which they are entitled based on law (i.e. IDEA, Title I dollars, and other “categoricals”). This amount would ‘follow’ the child in the district, regardless of whether the student chose to enroll in a district or charter school.

In addition, the working group described above also presented an alternative to PCTC for those districts that do not use SBB. This alternative, the Charter Funding Calculation (CFC), presents a separate and deliberate methodology for calculating payment to charters that would address limitations in the current PCTC calculation. The CFC is not an entirely new calculation but rather a modification of the current PCTC calculation that would allow funds to more accurately reached students based on their need. In addition, CFC allows for more precision in managing support for charter facilities.

Proposed Amendment:

“The range that districts can pay charters will be narrowed to 97% to 103% using a new calculation called the Charter Funding Calculation or “CFC”. The CFC calculation changes the PCTC calculation by separating facilities costs and providing districts some options for separating special education and supplemental state aid (in addition to clarifying which line items should be in or out of the calculation). Given that the CFC separates out facilities, a default methodology and benchmark for equitable per pupil funding for facilities would be the current ISBE PCTC methodology of:

Total Debt Service Expenditures less Debt Service Expenditures on Principal plus Total Depreciation Allowance divided by student ADA or enrollment (whichever aligns to the proposed payment methodology)

Alternative methodologies should be considered and a process developed for allowing districts and charters to agree to a reasonable facilities methodology including the provision of in-kind facilities rather than reimbursement.

This process will require school districts to submit to the State Board the calculation of the CFC in a standardized format and the State Board will be responsible for certifying that the proposed CFC is correct. In addition, districts can opt out of the CFC process and opt into the SBB process if said districts utilize SBB. In order for a district to rely on an SBB process, the district will be required to submit documentation of their process in a reasonable and timely manner to the State

Illinois Charter School Funding Task Force Report

Board. This process should be outlined against the prior year’s budget but may need to be modified based on final budget submissions. The State Board will certify whether a district meets the criteria for SBB. A key policy implication is that the State Board will be responsible for determining whether charters are equitably funded.”

Further detail regarding the CFC and SBB calculations and processes can be found in Appendix O.

Recommendation II: Propose Further Study of CFC and SBB Following Implementation

Given the extensive work required to implement a new funding formula the Task Force recommends that the use and effectiveness of CFC and SBB be studied after implementation to ensure that equitable funding of charter schools is occurring.

Proposed Action:

The Task Force recommends that a study be made, to be delivered to the legislature three years from date the legislation herein recommended is enacted, assessing whether the Charter Funding Calculation and Student Based Budgeting methods of charter funding are sound and has resulted in equitable funding for all students.

Recommendation III: Adopt Proposed Amendment for Expansion of Authorizer Fee

Current law in Illinois only provides for an authorizer fee for the Commission. The following proposed amendment would expand that authority to all authorizers, allowing them to offset the costs associated with charter school authorizing.

Proposed Amendment:

“All authorizers in Illinois may require payment of or withhold from up to 3% of such revenue to cover the costs of charter school authorizing activities. The amount of charter funding must fall within the permissible range of CFC or SBB for those districts utilizing SBB *after* the withholding or deduction of any authorizer fees.”

B. Facilities Access & Funding

The current Illinois Charter law does not address equitable funding or access to facilities for Illinois charter schools. The Illinois law tangentially addresses access to facilities only in Section 27A where it states “*A charter school may negotiate and contract with a school district, the governing body of a State college or university or public community college, or any other*

Illinois Charter School Funding Task Force Report

public or for-profit or nonprofit private entity for: (i) the use of a school building and grounds or any other real property or facilities that the charter school desires to use or convert for use as a charter school site, (ii) the operation and maintenance thereof...” Accordingly, the Task Force offers several proposed amendments to make the State and authorizer’s duty clear to provide equitable access to facilities for charter schools. This recommendation is based on practices observed in other states and is in line with “Goal i.” of the Task Force: “*Compile comparative analysis of charter school funding practices across the United States,*” and “Goal ii.”, to “*ensure funding equity.*”

The Task Force heard reports from national experts at the National Alliance for Public Charter Schools and the Illinois Facilities Fund as well as from local charter schools that access to facilities is one of the greatest obstacles to charter school formation as well as one of the greatest drivers of inequity between charter and district schools. Given that the Illinois law does not explicitly contemplate funding for charter school facilities, the Task Force looked to practices that have been adopted in other states to create more equitable access to facilities for charter schools while also considering the economic viability of implementing those practices in Illinois. The Task Force considered a variety of proposals on the issue and the final recommendations for Facilities Funding & Access reflect those considerations and are designed to ensure equitable access to facilities and associated funding for charter schools.

Recommendation IV: Adopt Proposed Amendment for Better Borrowing Terms for Charters

Charter schools, given their size and their contract terms, often face challenges borrowing at affordable rates and are often closed out of the debt market. To help alleviate some of those challenges, some states offer credit enhancement to charter schools that allow them to borrow at more favorable rates. In California, for example, the law provides that charter schools are eligible to access tax-exempt bond financing through the state. California law also provides that the state treasurer's office offer a limited credit enhancement program. Similarly in Colorado, the law provides a mechanism for limited credit enhancement for eligible, highly rated bond transactions for charter schools by using the state’s moral obligation to back up to \$400 million in debt. Colorado law provides that the Colorado Educational and Cultural Facility Authority (CECFA) may issue bonds on behalf of charter schools. The charter school debt reserve fund, backed by the moral obligation pledge of the state, enhances charter schools’ ability to borrow funds from CECFA and to obtain more favorable rates. Other credit enhancement programs are also in place in Utah, DC, and Indiana, among others. Following the Task Force’s charge to inform its recommendations based on practices found in other states, the Task Force recommends an amendment to offer credit enhancement to charter schools which has been adapted from the National Alliance for Public Charter Schools’ ‘Model Law’.

Illinois Charter School Funding Task Force Report

Proposed Amendment:

- (a) A fund shall be created for credit enhancement for public charter schools to be administered by the appropriate state agency.
- (b) Using the amounts described in paragraph (a), the appropriate state agency shall make and disburse grants to eligible nonprofit corporations to carry out the purposes described in paragraph (c).
- (c) The recipient of a grant under this fund shall use the monies provided under the grant to carry out activities to assist public charter schools in:
 - (i) Obtaining financing to acquire interests in real property (including by purchase, lease, or donation), including financing to cover planning, development, and other incidental costs;
 - (ii) Obtaining financing for construction of facilities or the renovation, repair, or alteration of existing property or facilities (including the purchase or replacement of fixtures and equipment), including financing to cover planning, development, and other incidental costs;
 - (iii) Enhancing the availability of loans (including mortgages) and bonds; and
 - (iv) Obtaining lease guarantees.

Recommendation V: Adopt Proposed Amendment to Provide Charter Schools Information Regarding Unused Facilities

In the Task Force’s study of authorizer practices in other states, it identified several models in other states which provide information to charter operators regarding unused facilities which might or could be made available to them. Adapting these ideas to Illinois, the Task Force proposed the following amendment to provide information to charter schools and others regarding districts’ unused buildings.

Proposed Amendment:

“The State and authorizers shall seek to provide equitable access to facilities for charter schools via access to unused district or state facilities. Each district, or the State Board by collecting information from each district, shall annually compile, maintain, and publish a database of all eligible, unused facilities and establish a district process for charters to apply for the available facilities. Charters shall have an opportunity to access those facilities through lease or purchase. The process established shall include input from the relevant community before a final lease or sell decision is made.”

Recommendation VI: Adopt Proposed Amendment to Lengthen the Term of Charter Renewal

The current statute Sec. 27A-9(a) states: “A charter may be renewed in incremental periods not to exceed five school years.” The Task Force heard comment that the short term of the charter

Illinois Charter School Funding Task Force Report

renewal prevents charter schools from accessing the debt market. As such, the Task Force presents the following amendment to the law that would extend the maximum length of the charter term to give charters a better chance of securing debt for facilities financing.

Proposed Amendment

“A charter may be renewed in incremental periods not to exceed ten school years. A charter must meet all standards for academic, organizational, and financial performance set forth by the authorizer in order to be renewed for a full term of ten years.”

C. Commission Authorized Schools

The Task Force was directed by “Goal iii” of HJR36 to: *“Review the effects of state-authorized charter schools on the students served by the charter, the students in the home school district, and the home school district’s budget.”*

Representatives from Commission authorized charter schools as well as a district that has had a charter school authorized by the State on appeal each presented to the Task Force. The presentations from charter schools centered on the funding equity that currently exists for Commission authorized schools which are all funded at 100% of their host district’s PCTC. The district presentation set forth the economic impact of the charter school to district finances. The Task Force also considered relevant case law which considered the claims of negative financial impact to the district and which found in favor of the State Board’s authorization of the charter school over the objections of the district. Proposals considering multiple perspectives on this issue were presented to the Task Force and its final recommendation for Commission Authorized Schools reflects careful consideration of the information presented and is designed to ensure continued equitable funding of Commission authorized charter schools.

Current Illinois Law:

Section 27A-9(f) states that *“The State Board shall withhold from funds otherwise due the district the funds authorized by this Article to be paid to the charter school.”*

Section 27A-9(h) states that *“For charter schools authorized by the Commission, the State Board shall pay directly to a charter school any federal or State aid attributable to a student with a disability attending the school.”*

Section 27A-11(b) states that: *“In no event shall the funding be less than 75% or no more than 125% of the school district’s per capita student tuition multiplied by the number of students residing in the district who are enrolled in the charter school.”*

Section 27A-7.5(j) states that *“The Commission may charge a charter school that it authorizes a fee, not to exceed 3% of the revenue provided to the school, to cover the cost of undertaking the*

Illinois Charter School Funding Task Force Report

ongoing administrative responsibilities of the eligible chartering authority with respect to the school. This fee must be deposited into the State Charter School Commission Fund.”

Section 27A-7(9) states that the charter proposal must present “*Evidence that the terms of the charter as proposed are economically sound for both the charter and the school district...*”

Recommendation VII: Maintain Funding Methodology and Narrow Range for Commission Authorized Schools

The Task Force concluded that the funding methodology of Commission-authorized schools as currently described in Illinois state law is aligned with equitable funding practices and should remain as is, in that Commission-authorized schools will continue to be funded using the PCTC calculation, as opposed to CFC or SBB, but that the range for such schools shall be narrowed to 97% to 103%, and that an authorizer fee of up to 3% is permissible.

The following amendment was approved by the Task Force:

Proposed Amendment:

“The range of funding for Commission authorized schools shall be narrowed to 97%-103% of PCTC.”

D. Fund Transition Impact Aid

This recommendation is in line with “Goal iii” of the Task Force: “*Review the effects of state-authorized charter schools on the students served by the charter, the students in the home school district, and the home school district’s budget.*”

Current Illinois Law:

Section 27A-11.5(1) states that “*From a separate appropriation made to the State Board for purposes of this subdivision (1), the State Board shall make transition impact aid available to school districts that approve a new charter school or that have funds withheld by the State Board to fund a new charter school that is chartered by the State Board. The amount of the aid shall equal 90% of the per capita funding paid to the charter school during the first year of its initial charter term, 65% of the per capita funding paid to the charter school during the second year of its initial term, and 35% of the per capita funding paid to the charter school during the third year of its initial term...*”

Transition Impact Aid was first implemented in FY05. At that time, the Illinois legislature recognized that when a charter school opens, it may take some time for the host district to adjust to the transitioning of dollars it had previously controlled to the charter school. Thus, for several years, approximately \$3 million in transition aid was awarded to some districts until a decrease

Illinois Charter School Funding Task Force Report

in revenue available to the State of Illinois caused the item to be eliminated from the Illinois Governor's budget in FY09. The provision has remained on the books, but has not been funded since FY08. Following its charge to review the effects of state authorized charter schools on the host district's budget, the Task Force revisited the provision on Transition Impact Aid and noted the importance of the funding which would provide some financial offset to the host district of a new charter school while allowing it time to adjust financially and organizationally to the impact of the new school. The recommendation set forth for Transition Impact Aid recognizes the importance of funding this provision and will allow districts to more easily adjust to new charter schools.

Recommendation VIII: Fully Fund Transition Impact Aid

The Task Force recommends that the legislature fully fund Transition Impact Aid according to the levels and terms set forth in the current statute.

E. Transparency, Predictability and Enforcement of Funding

The current Illinois Charter School Law does not address the transparency, predictability and enforcement of funding for charter schools nor does it sufficiently address the necessary transparency in charter school reporting to authorizers, although certain provisions regarding financial accounting are set forth in the Law (see Appendix D). The amendment proposed below was informed by practices observed in other states as part of the Task Force's research. Additionally, feedback from Task Force members on relevant issues of transparency currently affecting charter schools and authorizers in Illinois and elsewhere led to the proposed recommendation. This recommendation would be a new section of the law and is in line with "Goal i" of the Task Force: "*Compile comparative analysis of charter school funding practices across the United States,*" and "Goal ii" t "*ensure funding equity.*"

The proposed recommendation will increase transparency of charter funding to the charter school itself and other interested stakeholders as well as increase the State Board's ability to act regarding authorizers and charter schools who fail to comply. The recommendations for Transparency, Predictability and Enforcement of Funding also respond directly to recent issues of transparency in charter schools in Illinois, specifically with regard to contracting with Education Management Organizations, and reflect the Task Force's concern about those issues.

Recommendation IX: Adopt Proposed Amendments Related to Transparency of Authorizer Payment Rates

Proposed Amendments

Illinois Charter School Funding Task Force Report

- i. The charter school and the authorizer will make best efforts to ensure that all charter contracts will be executed within 120 days of the charter’s approval and at least 30 days before the start of school, whichever comes first.
- ii. All charter authorizers shall be required to include the funding percentage if based on PCTC in all contracts with charter schools. The annual funding percentage, where applicable, must be outlined for the entire term of the charter contract, which is usually 5 years. If a district uses SBB or CFC the charter must set forth the guidelines to determine funding based on the chosen methodology (including, but not limited to, the categories of funding that comprise the funding calculation) and, in the case of CFC, the percentage of funding to be used to determine payments to the charter school.
- iii. If an authorizer does not include the required elements, including but not limited to the funding amounts which are in compliance with the charter school funding range in the charter contracts between the authorizer and the charter school that are submitted to the State Board for certification, then the State Board of Education shall impose sanctions such as not certifying those contracts until such assurances of compliance are received or shall take other action as authorized by law.

Recommendation X: Adopt Proposed Amendment Regarding EMO Contracts with Charters.

Several Task Force members noted that transparency is important not just from the authorizer to the charter but also from the charter to the authorizer and the broader public, especially regarding such issues as charters which utilize Educational Management Organizations, or “EMOs”. As such, the Task Force expanded the scope of its research to include information on charter reporting and transparency by charter schools. The following proposed amendment reflects that research and is adapted from the National Alliance for Public Charter School’s ‘Model Law’.

Proposed Amendment:

In the case of a proposed public charter school that intends to contract with either a for-profit or non-profit education service provider for substantial educational services, management services, or both types of services, the request for proposals shall additionally require the applicants to:

- (i) Where applicable, provide evidence of the education service provider’s success in serving student populations similar to the targeted population, including demonstrated academic achievement as well as successful management of non-academic school functions;
- (ii) Provide a term sheet setting forth the proposed duration of the service contract; roles and responsibilities of the governing board, the school staff, and the service provider; scope of services and resources to be provided by the service provider; performance

Illinois Charter School Funding Task Force Report

evaluation measures and timelines; compensation structure, including clear identification of all fees to be paid to the service provider; methods of contract oversight and enforcement; investment disclosure; and conditions for renewal and termination of the contract; and

(iii) Disclose and explain any existing or potential conflicts of interest between the school governing board and proposed service provider or any affiliated business entities.

(iv) If a charter school contracts with an education service provider, after it is in operation, the authorizer may require that the charter school submit a term sheet, as described above, and include additional information about the relationship as part of its annual reporting requirements for charter schools.

(v) Furthermore, authorizers shall require charters to submit, as part of their annual reporting, audited financial statements for any for-profit or non-profit EMOs.

F. Virtual Schools Funding Proposed Recommendation

The Task Force limited its research and recommendations to ‘brick and mortar’ charter schools. However, the Task Force acknowledges that the recommendations regarding the funding of ‘brick and mortar’ charter schools may not be fully applicable to the funding of virtual schools. Particularly in the case of a charter school that is 100% virtual, the Task Force notes that special funding considerations may be warranted. Furthermore, as part of the moratorium on virtual schooling imposed by the State Legislature in May 2013, the State Charter School Commission was charged with conducting research on the topic and issuing a report by March 1, 2014. In support of that charge, the Commission has convened an advisory group to consider the issue. That advisory body held meetings in October and December of 2013 and in January 2014. The Commission’s Report will address aspects related to virtual charter schools, including their funding. As such, the Task Force proposes the following limited recommendation.

Recommendation XI: Recommendation to Address Virtual Charter Schools Separately

Virtual charter schools have unique organizational and programmatic structures that require special and separate funding consideration. The recommendations contained in this report shall apply only to ‘brick and mortar’ charter schools. The Task Force finds that the funding of virtual charter schools in Illinois should be addressed separately by legislation following the release and consideration of the Commission’s Virtual Schooling Report.

G. Recommendation to Increase Statewide Education Funding

Although the Charter School Funding Task Force was specifically tasked with examining issues related to, and offering recommendations regarding charter school funding, many of the issues raised during Task Force meetings were relevant to other public schools as well. The Task Force defers consideration of these larger issues to the committee convened by Senate Resolution 431 (SR 431). SR 431 called for an eight member advisory committee (four members of the Senate

Illinois Charter School Funding Task Force Report

majority caucus and four members of the Senate minority caucus) to study funding for education in Illinois and the committee delivered recommendations on February 1, 2014 to the Senate President and Senate Minority Leader as well as to the State Board for distribution to all school districts. Given the parallel work of that committee, this report intentionally limits its recommendations on funding exclusively to charter schools. Additionally, the Task Force acknowledges that the findings from the SR 431 committee, if adopted into law and policy, may obviate or make moot a number of the recommendations of this Task Force.

As noted earlier in this report, over the course of the Task Force meetings, several members expressed the strong belief that education funding in Illinois should be increased overall. Although the Task Force focused its work and recommendations on ensuring funding equity across all school types, it also notes that the current level of education funding is insufficient to meet the ambitious goals set forward by the State including the goal included in HJR 36 to increase post-secondary graduation rates to 60% by 2025. Further, Task Force members noted that while increased funding for education would benefit all students, it may improve the sometimes challenging relationships between districts and charters. As such, the Task Force presents the following recommendation:

Recommendation XII: Recommendation that Overall Funding for Education Should Be Increased

The Task Force recommends that the legislature increase the overall level of education funding to ensure success for PreK-12 schools in Illinois.

7. Conclusion

The Charter School Funding Task Force is pleased to have been asked to address the important issue of charter school funding in Illinois, and all members worked assiduously over the course of seven months to research this issue, discuss the benefits and risks of various aspects of this issue, and, finally, to issue these recommendations. The Task Force stands ready, at the call of the legislature, to provide further exploration of these issues.

Dated February 15, 2014.

The Illinois State Charter School Funding Task Force.
Chicago, Illinois.