



# The Civic Federation

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## A FINANCIAL ANALYSIS OF THE CHICAGO CHARTER SCHOOLS

### *A Financial Indicator Analysis and Primer*

October 4, 2011

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*The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.*

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## EXECUTIVE SUMMARY

This report is a comprehensive examination of Chicago charter school finances and financial performance in fiscal years 2007 and 2008. The primary purpose is to provide a first-ever financial analysis of Chicago's charter schools. In addition, the report is a primer on charter schools, providing an overview of national charter school research, an outline of charter school funding models, a review of the legislative history of charter schools in Illinois and information about the funding of Illinois and Chicago charter schools. The report specifically:

- Reviews the historical evolution of Chicago's charter schools;
- Reviews comparative research on models of charter school funding and organization around the nation;
- Identifies and evaluates the sources of charter school revenues in Illinois;
- Identifies and analyzes how the Chicago Public Schools per pupil allocation to charter schools is determined;
- Identifies and analyzes how much CPS spends per pupil for charter schools on a system-wide basis and on a school-based level;
- Identifies and evaluates how Chicago charter schools spend money;
- Compares charter school spending with that of other public schools in CPS;
- Identifies other services CPS offers to charter schools in addition to per pupil allocations;
- Evaluates charter school fiscal viability;
- Identifies whether Chicago charter schools employ sound financial practices; and
- Assesses Chicago charter school financial performance.

Chicago charter schools are independent schools that are not subject to the same legal requirements or school board policies as other public schools in the city. Charter school teachers are employees of the individual charter school governing board or education management organization hired by the charter school board that operates the school on a day-to-day basis. During the 2007-2008 school year there were 30 charter schools in Chicago on 68 campuses and a total of 22,777 students were enrolled in them. This was 5.6% of all CPS students.<sup>1</sup>

Chicago charter schools as a group **successfully met key standards of fiscal accountability**. Most of the schools spent over 80% of all expenses on program-related services, maintained surpluses or balanced budgets, spent over 50% of all expenses on instruction, complied fully with CPS program and financial regulations and received unqualified audit opinions for their annual financial reports.

Most of the schools also were in **good fiscal health**. In the aggregate, the schools were fiscally viable, with revenues more than sufficient to cover costs. Most of the schools received high financial performance grades, indicating a positive financial performance record. They did not use an excessive amount of resources to maintain facilities, nor did they use too high a proportion of resources to pay for basic operating costs.

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<sup>1</sup> Consistent financial data were not always available from all 30 charter schools from various reports and the audited financial statements. Therefore, the number of charter schools evaluated differs for different indicators and measures so that only comparable data were employed.

## OVERVIEW OF MAJOR FISCAL FINDINGS

The primary sources of financial data used in this report were FY2007 and FY2008 CPS and charter school budgets and audited financial statements and various CPS reports. Additional information was obtained from CPS staff.

Two types of fiscal analysis were conducted: 1) An evaluation of charter school revenues and expenses and 2) A financial indicator analysis of the financial health of the charter schools.

*Overall, the fiscal analyses found that the Chicago charter schools successfully met key standards of fiscal accountability and that they were in good fiscal health.*

The charter schools in the aggregate demonstrated **fiscal accountability** according to the following measures:

- Over 80% of all expenses were spent on program-related services in both FY2007 and FY2008.
- The median percentage of expenses spent in the classroom on instruction-related expenses exceeded 50% in both years.
- The number of charter schools fully compliant with program and financial regulations rose from 19 of 28 schools to 23 of 28 between FY2007 and FY2008.
- All Chicago charter schools received unqualified audit opinions in both years reviewed.

The Chicago charter schools in the aggregate were in **good fiscal condition** as evidenced by the following findings:

- Over 60% of the 28 charter schools had surpluses or balanced budgets in FY2007 and FY2008.
- The majority of schools received high financial performance grades, indicating a positive financial performance record. In FY2007, the overall General Performance Assessment (GPA) score for the twenty-two Chicago charter schools reporting consistent financial data was 3.6, which corresponds to a B+ grade. It fell slightly to 3.3 in FY2008, corresponding to a B grade. This is still a high indicator.
- An occupancy ratio of 25% or greater means that the school may be using too many resources to pay for facility expenses. In FY2007 and FY2008, the occupancy ratios of all Chicago charter schools were less than 25%. Thus, the schools were not using an excessive amount of resources to maintain their facilities.
- A payroll + occupancy ratio that is higher than 75% indicates a school may be using too high a proportion of resources to pay for basic operating costs. In FY2007 and FY2008, most of the twenty-two schools reviewed had payroll + occupancy ratios of less than 75%. Thus, they did not use too high a proportion of resources for basic operations in either year.

However there were some **warning signs** uncovered in the charter school financial analysis:

- Several charter schools had a declining or negative budget position in 2007 and 2008. Nine of 28 charter schools for which data were available had declining or negative budget positions. Five charter schools reported a change from a budget surplus or a balanced budget to a budget deficit. Four charter schools reported a deficit in both fiscal years.
- In FY2007 ten of twenty-two schools had payroll ratios of less than 50%. In FY2008, the number of charter schools with payroll ratios of 50% or less fell to six of twenty-two. A payroll ratio of less than 50% is desirable. If the amount spent on payroll is large, less money is available for other school activities and functions. High payroll ratios may be difficult to sustain over time absent new revenues or reduced costs.

### *Report Caveats*

This report provides a snapshot of financial performance at a point in time, in this case over a two-year period. It is an overview of the relative financial performance and condition of the charter schools in Chicago as a group. As such, the report provides general insights into their financial situation. However, it is important to note that there are often extenuating circumstances regarding the situation of individual organizations.

Differentials in expenses among charter schools can be due to a number of factors. For example, it is much more expensive to educate high school students than those in grades K-8. There may be cost differentials among different charter schools for facilities and/or food service. Human capital costs vary widely depending on what type of educational service is being provided; students enrolled in special education programs require a specialized workforce that can be costly. Costs, particularly those for personnel, can increase due to expansion of grade levels over time. These types of factors can explain some of the differences among schools and between charter school expenses versus expenses for the entire CPS district. As a high level financial overview, this report cannot and does not disaggregate these significant cost differentials. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of this analysis.

There were many significant data limitations in preparing this report. Currently, the charter schools are not required to report revenue or expense information in their audited financial reports in a consistent manner. Different schools use different categories for revenues and expenses. Because of the lack of standardization in financial reporting, revenue and expense categories for comparison were based on assumptions about the appropriate categorical designation. The expenses were organized into categories roughly corresponding to the CPS categories found in the District's Statement of Activities in its audited financial report. Revenues were organized according to federal, state, local and school-based categories. Analyses could only be provided for those charter schools reporting consistent data over time. This explains why there are differing numbers of charter schools analyzed for different indicators.

## **Summary of Key Findings for Chicago Charter School Revenue and Expense Analysis**

Three different types of analyses of Chicago charter school revenues and expenses in FY2007 and FY2008 were conducted: 1) a program expense analysis; 2) an instructional expense analysis and 3) a review of charter school revenues. The program and instructional expense analyses provide an evaluation of how well the charter schools met key standards of fiscal accountability. The review of revenues provides a description and evaluation of funding sources.

### ***Program Expense Analysis***

The **program expense analysis** provides an evaluation of program-related (i.e., direct service) activities versus other activities. Program expenses are the funds a nonprofit organization devotes to its direct mission-related work or direct service expenses. One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program ratio is program service expenses divided by total expenses.

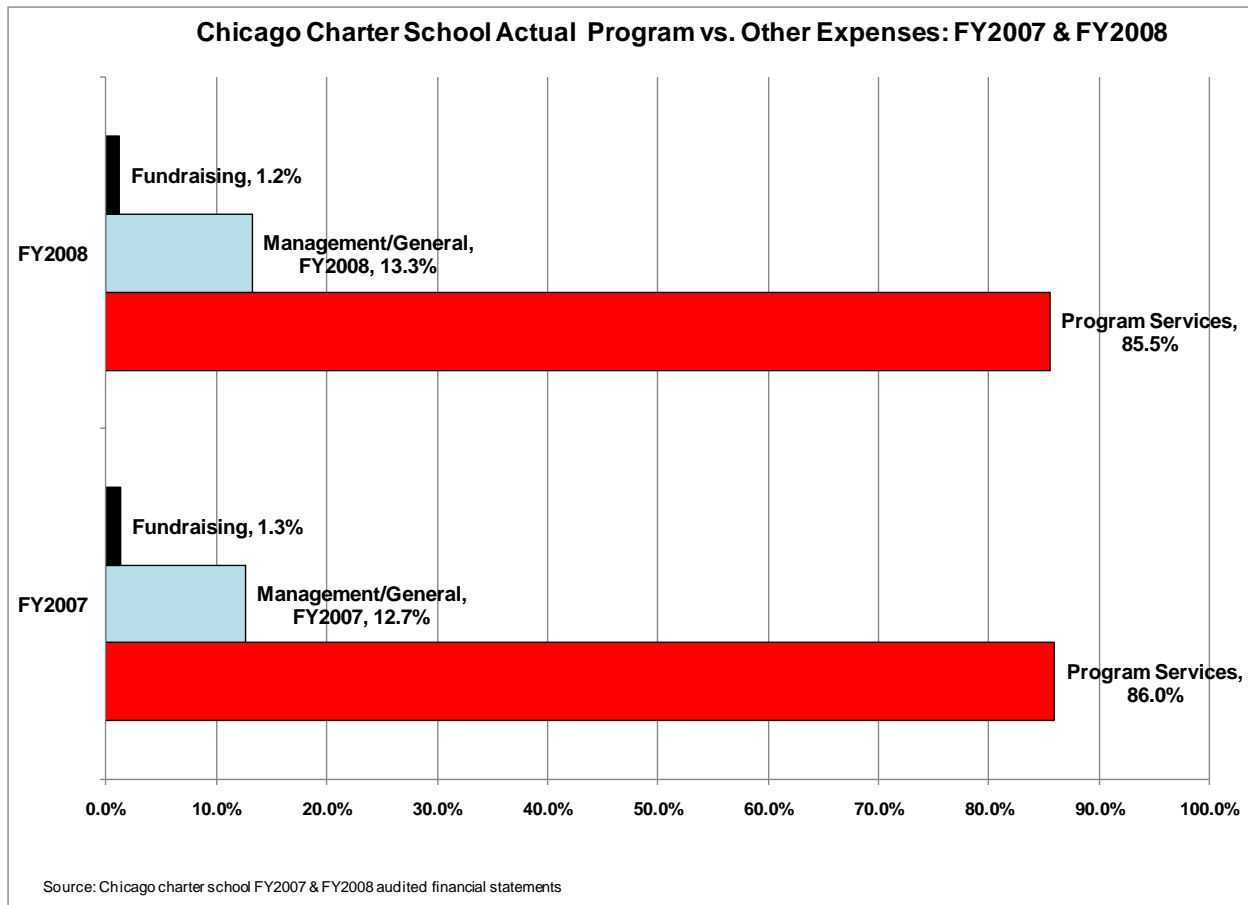
- The twenty Chicago charter schools reviewed spent over 80% of all expenses on program services in both FY2007 and FY2008. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities.
- In FY2007 the proportion of total actual charter school expenses spent on programs was 86.0%. Management and general administrative expenses consumed 12.7%. Fundraising expenses accounted for the remaining 1.3%. For individual charter schools, the proportion of spending earmarked for program expenses ranged from a low of 77.5% for the Bronzeville Lighthouse charter school to a high of 96.4% for the L.E.A.R.N. charter school.
- The proportion of total actual charter school program expenses in FY2008 was 85.5%. Administrative expenses rose slightly from 12.7% to 13.3%. Fundraising costs fell slightly from 1.3% to 1.2%. The proportion of spending for program services ranged from a low of 78.0% for the Chicago Virtual charter school to a high of 96.6% for the L.E.A.R.N. charter school.

There is a caveat in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various starts up costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.<sup>2</sup>

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<sup>2</sup> Guidestar. "Why Ratios Aren't the Last Word," June 2004. <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx>.





### *Instructional Expense Analysis*

The **instructional expense analysis** evaluates how much of a charter school's expenses were spent in the classroom on instruction-related expenses.<sup>3</sup> The primary purpose is to determine how much of a charter school's expenses were spent in the classroom versus other expenses such as administration. The analysis looked at instructional expenses for the individual charter schools and compared them to CPS-wide figures.<sup>4</sup>

- In FY2007 the median percentage spent on instruction for the twenty-one charter schools analyzed was 54.9%. An additional 10.0% was the median amount spent on pupil support services, which includes expenses for curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training. The combined median for both

<sup>3</sup> Instruction-related expenses include teacher salaries and benefits, substitute teachers, field study and summer programs.

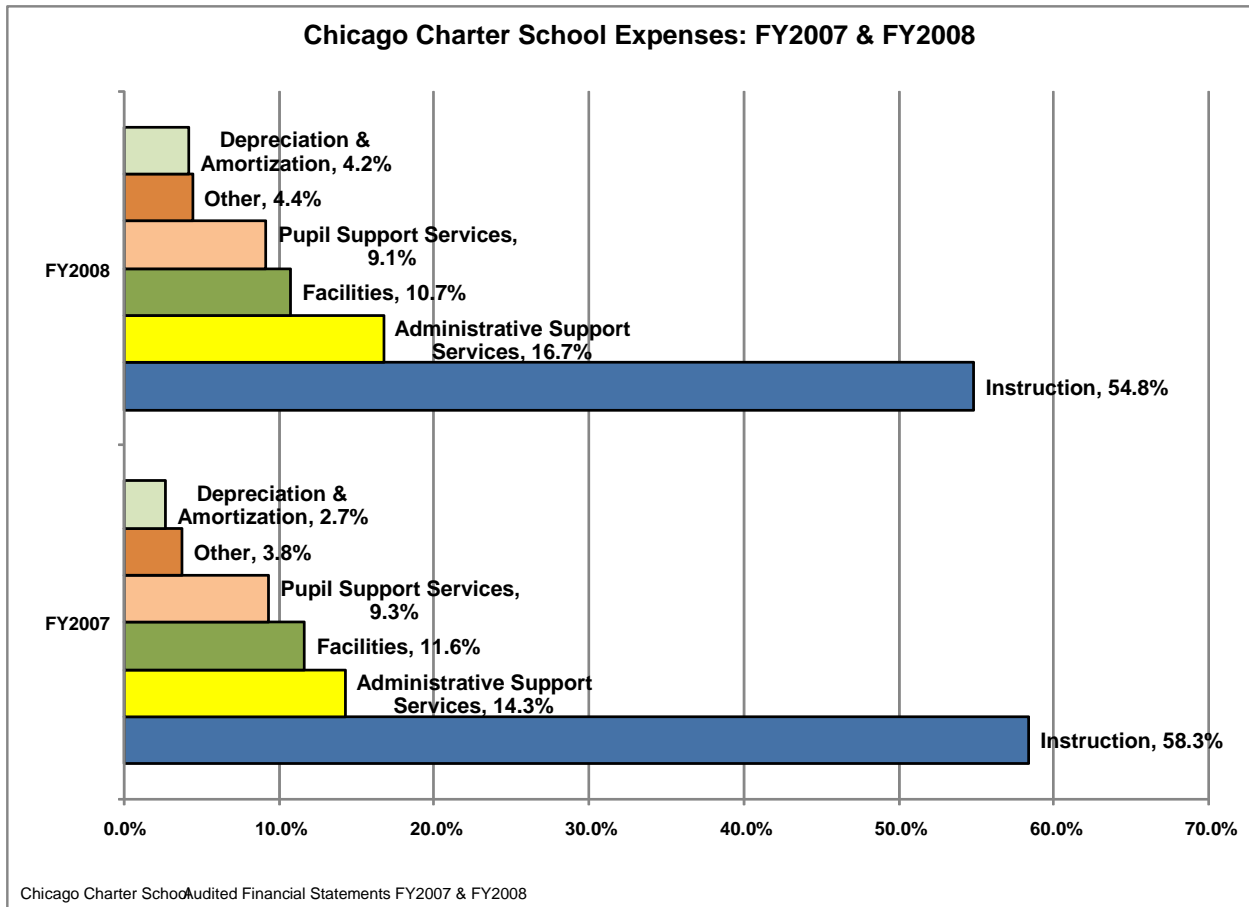
<sup>4</sup> There is no standardization of line items in the individual charter school Statements of Functional Expenses. Each school reports fiscal information according to its own categorization scheme. However, there are many common and similar line items. We organized the various line items into categories roughly corresponding to the CPS categories found in the District's Statement of Activities. While not exact, our classification system provides a reasonable basis for general comparisons between CPS and charter school expenses and among the individual charter schools.

of these classroom-related expenses was 65.1%. The median percentages for administrative support services and facilities were 16.6% and 11.7% respectively.

- Total actual expenses per pupil enrolled in the twenty-one charter schools reviewed in FY2007 were \$9,660. The median amount spent was \$10,779. The percentage of total expenses made by the schools on instruction ranged from a low of 22.1% for the Chicago Virtual charter school to a high of 86.1% for the Youth Connection Charter School (YCCS).
- In FY2008 charter school expenses per category did not change dramatically from the previous fiscal year to FY2008. The median percentage amount spent on each of the four major categories of spending was 54.5% for instruction, 9.2% on pupil support services, 19.6% on administrative support services and 11.1% on facilities. Combining classroom-related expenses for instruction and pupil support services as a percentage of total expenses for FY2008 yields a median of 63.3%.
- Total actual expenses per pupil in FY2008 were \$10,956. This was a 13.4% increase from the FY2007 figure of \$9,660. The median amount spent was \$11,331. The percentage of total expenses spent by the schools on instruction ranged from a low of 22.6% for the Chicago Virtual charter school to a high of 84.4% for the Youth Connection charter school (YCCS).
- Chicago charter schools devoted a smaller percentage of total expenses for instruction than all CPS schools<sup>5</sup> in both years reviewed, 58.3% versus 61.5% in FY2007 and 54.8% versus 59.5% in FY2008. These statistics must be viewed cautiously and in a broader context. Instructional expenses are primarily program-related salaries and benefits. The difference between the two groups could be due to the pool of all CPS schools employing a larger percentage of teachers with longer tenure and hence higher personnel costs than charter schools. Further research is necessary to more specifically determine the reasons for the disparity.
- The Chicago charter schools had higher administrative support service costs than CPS as a whole. In FY2007 charter school administrative support service expenses were 14.3% versus 8.1% for CPS. In FY2008, charter school administrative support service expenses were 16.7% versus 8.5% for the district. These costs could be attributable to initially high start up costs for administration. Further research is necessary to more specifically determine the reasons for the disparity.

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<sup>5</sup> This figure includes the charter school data.



### ***Revenue Analysis***

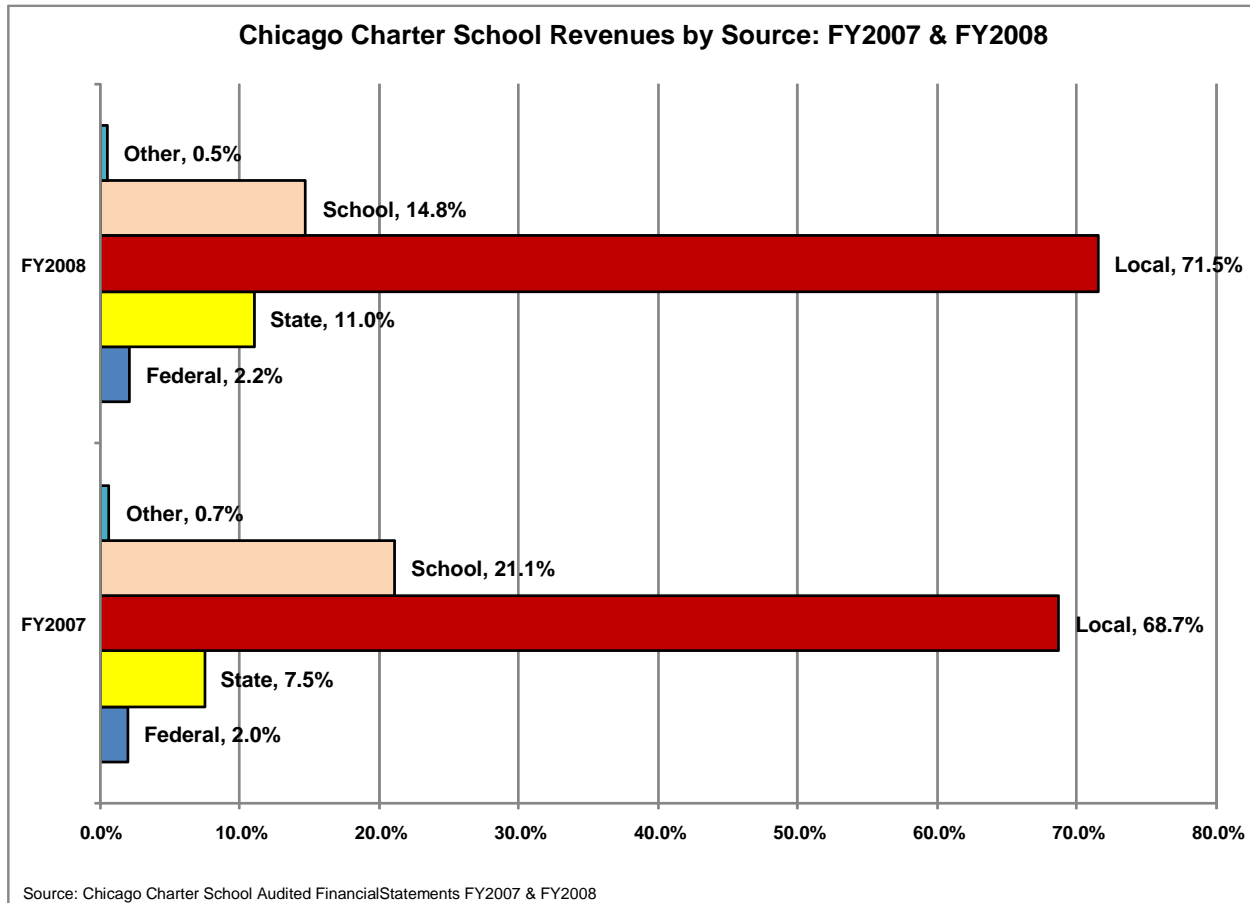
Our **review of charter school revenues** included a description of funding sources, an evaluation of revenues by source and a discussion of school-based revenues.<sup>6</sup>

Chicago charter schools receive funding from a variety of federal, state and local sources as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements were grouped into four categories for purposes of analysis: federal, state, local and school-based funding. Local funding was provided by or through CPS. School-based funding includes grants, donations, contributions and the proceeds of various fundraising efforts.

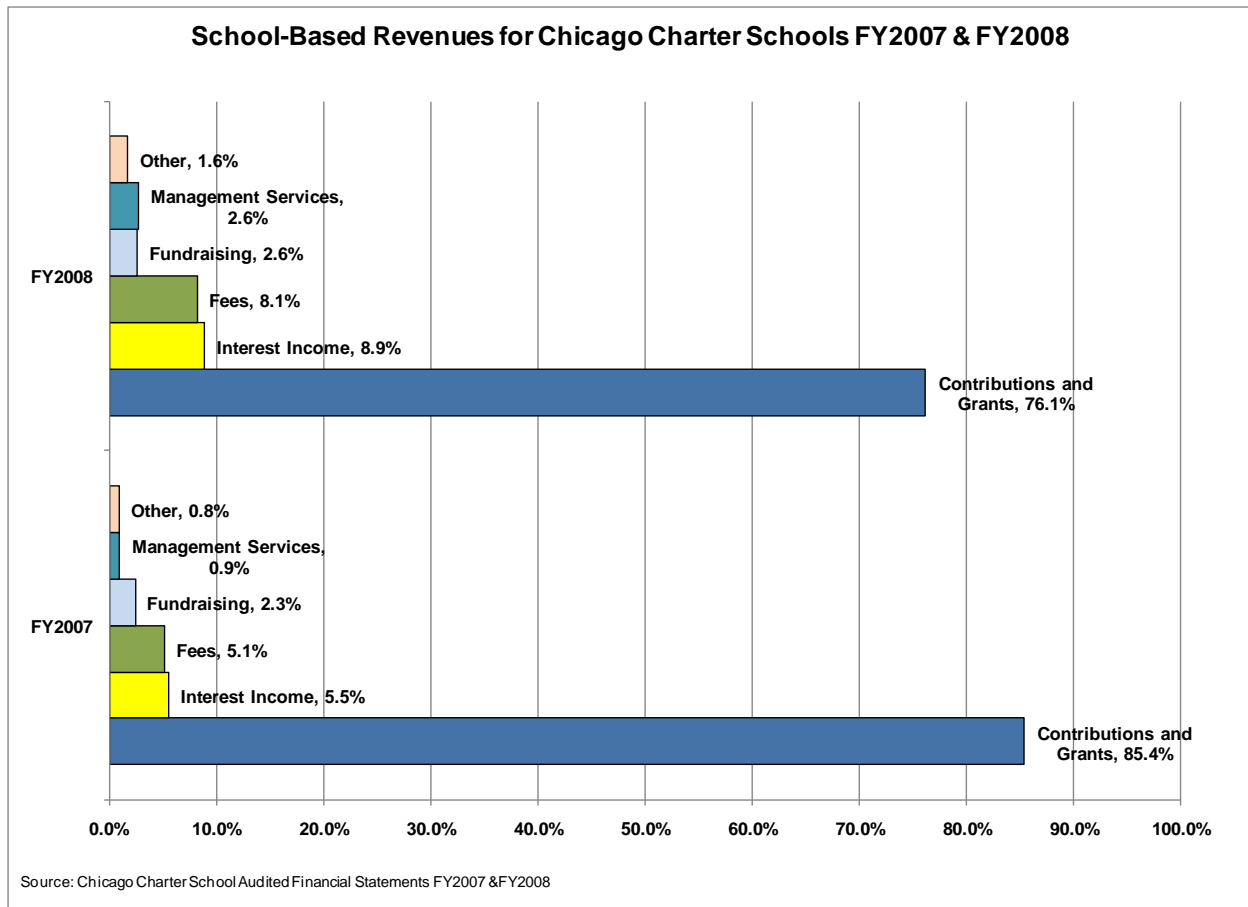
- In FY2007 the majority of charter school revenues or 68.7% were local – that is, they are provided by or through CPS. This includes per capita tuition funds and contributed goods and services. Over 21% of revenues were school-based and 7.5% were from state sources. Federal sources accounted for 2.0% of all revenues.

<sup>6</sup> Complete financial data were not available for Erie charter school in FY2007. Therefore, data are presented for twenty charter schools in FY2007 and twenty-one schools the following year.

- In FY2008 the local percentage of all charter school revenues rose to 71.5% or \$157.1 million. School-based revenues dropped to 14.8% of total revenues. State source revenues rose to 11.0% and federal were 2.2% of all revenues.



- Charter schools generate “school-based” or “own source” revenue by applying for and receiving grants, donations and contributions; hosting fundraising events; charging program and student fees; generating interest income and receiving management service fees. The charter schools studied generated \$37.4 million in these revenues in FY2007 (21.1% of all revenues) and \$32.4 million in FY2008 (14.8% of all revenues). The single largest category in both years was contributions and grants, which accounted for 85.4% of all school-based revenues in FY2007 and then fell to 76.1% the following year.



There are several caveats regarding the presentation and evaluation of charter school revenue data. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information.<sup>7</sup>

### Summary of Key Findings of Chicago Charter School Fiscal Indicators Analysis

The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks or indicators. Four different types of fiscal indicators analysis were employed to provide a comprehensive picture of the financial health of the charter schools in FY2007 and FY2008: 1) a financial operations analysis; 2) a fiscal viability analysis; 3) a fund balance ratio analysis; and 4) a financial performance analysis.

Certain of the specific financial operations analytical measures, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. That is, they measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

<sup>7</sup> For example, in some audited financial statements, per capita tuition, Title I federal funds and Supplemental General State Aid (SGSA) funds are lumped together even though they derive from different sources of funding. Also, complete financial data were not available for Erie charter school in FY2007. Therefore, data are presented for twenty charter schools in FY2007 and twenty-one schools the following year.

### ***Financial Operations Analysis***

The financial operations analysis is a review of how well the Chicago charter schools adhere to sound budget and finance practices. This includes whether they reported a balanced budget, whether their obligations were current, if any material weaknesses were uncovered in the financial audit regarding internal controls, whether the charter school complies with applications and regulations prescribed by the Chicago Public Schools or other entities and if the school received an unqualified audit opinion.

***In all of these categories, the charter schools in the aggregate received positive ratings.***

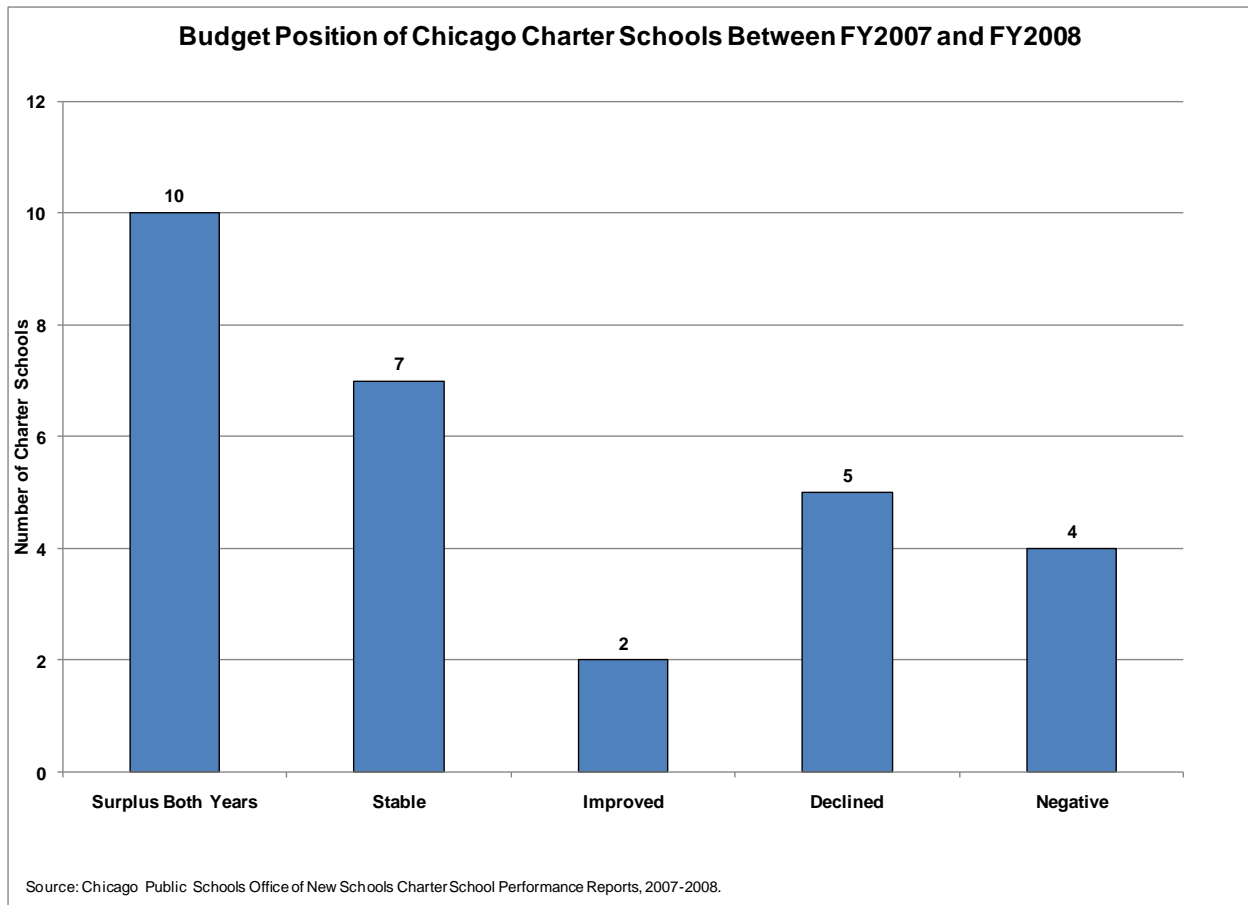
#### **Budget Position**

To evaluate budget position, researchers used five classifications:

1. Surplus: The charter school reported a surplus in both years;
2. Stable: The charter school reported a change from budget surplus to a balanced budget or it reported a balanced budget in both years;
3. Improved: The charter school reported a change from a deficit situation to a balanced budget;
4. Declined: The charter school reported a change from a budget surplus or a balanced budget to a budget deficit; and
5. Negative: The charter school reported a deficit in both fiscal years.

The results of this analysis were that:

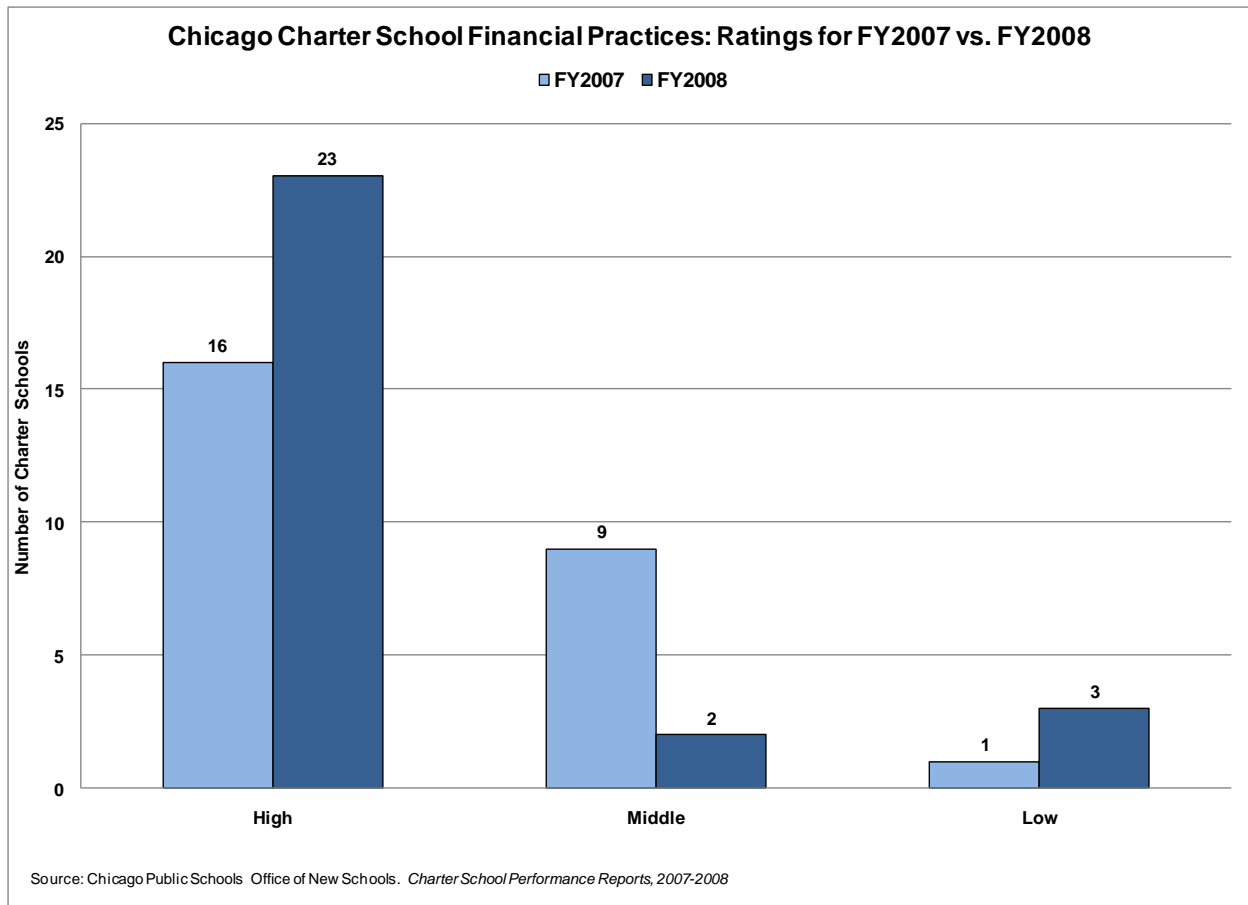
- Seventeen of the twenty-eight charter schools (60.7%) providing reports to CPS reported surpluses and/or balanced budgets in both FY2007 and FY2008.
- Two charter schools' budgetary positions improved between FY2007 and FY2008, moving from a deficit situation to a balanced budget.
- Nine charter schools (32.1%) reported that their budget situation was negative or declined over the two-year course of this review. Five schools reported a change from a budget surplus or a balanced budget to a budget deficit while four others reported a deficit in both fiscal years.



### Financial Practices

The financial practices indicator examines whether each charter school’s obligations are current and whether the annual financial audit uncovered any material weaknesses regarding internal controls. Overall, the ratings for Chicago’s charter schools improved between FY2007 and FY2008

- Between FY2007 and FY2008, the number of schools receiving a “High” rating, which indicates that obligations were current and no material weaknesses regarding internal controls were discovered, rose from sixteen to twenty-three.
- The number of schools with a “Middle” rating, where there were some problems such as obligations not being current or there were weaknesses in internal control structures and procedures, declined from nine to two.
- The number of schools with a “Low” rating, indicating that there were repeated weaknesses regarding internal controls, rose from one in FY2007 to three one year later.

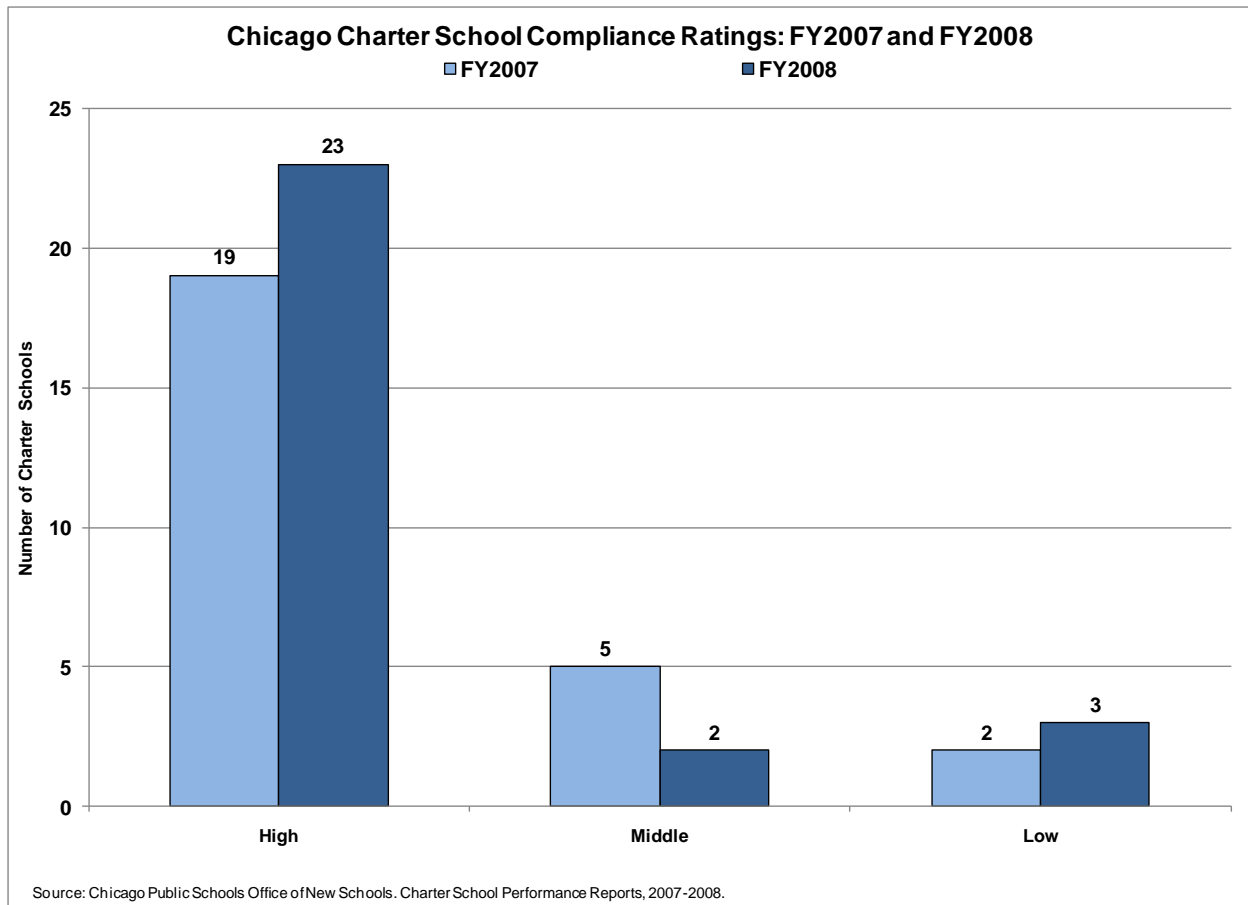


## Compliance

The compliance indicator measures rates of compliance by Chicago charter schools with required CPS and other entity applications and regulations.

- Compliance with CPS regulations increased between FY2007 and FY2008.
- The number of charter schools receiving a “High” rating, indicating full compliance, rose from nineteen to twenty three or 85% of the twenty-eight charter schools in operation and reporting to CPS.
- The number of schools receiving a “Middle” rating, where there were one to three findings of noncompliance dropped from five to two.
- Three schools received a “Low” rating in FY2008, indicating multiple repeat findings of noncompliance, up from two the previous year.





### Audit Opinions

All Chicago charter schools received unqualified or “clean” audit opinions in both FY2007 and FY2008. This means that their financial statements were in compliance with nonprofit generally accepted accounting principles.

### *Fiscal Viability Analysis*

Charter schools must be fiscally viable if they are to succeed in the long term. A commonly used indicator used to assess fiscal viability is a review of audited *Year-End Balances or Changes in Net Assets*. This indicator shows whether each school had a deficit or a surplus in the FY2007 and FY2008 academic years. A surplus is a positive sign of fiscal viability. Because the schools budgeted adequately to cover expenses, few reported deficits in both FY2007 and FY2008.<sup>8</sup>

<sup>8</sup> Providing complete or specific explanations for findings for individual charter schools is beyond the scope of this discussion. The data sources for this analysis were charter school audited financial statements. See Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University, October 2000, pp. 57-58.

- In FY2007 only four of the twenty-seven charter schools providing financial data reported deficits. The median year-end balance for all of the charter schools studied was \$239,886, or 7.2% of total expenses.
- In FY2008 the number of charter schools reporting deficits rose to nine, a negative finding. The median Chicago charter school end-of-year balance for all schools reviewed in that year was \$172,268. The median balance was 4.7% of total expenses.
- The increase in the number of charter schools reporting deficits between FY2007 and FY2008 may be a one-year anomaly or the beginning of a trend. Further monitoring is needed in subsequent years.

### ***Fund Balance Ratio Analysis***

This is a measure of resources available to use for emergencies or contingencies. It is a commonly utilized measure of fiscal health. It is produced by calculating charter school unrestricted net assets as a percentage of expenses. A ratio of 10% or more indicates that the school has adequate reserves to deal with emergency situations. Most of the charter schools had fund balance ratios in excess of 10% and their fund balance ratio position was **positive**.

- Eighteen of the twenty-seven charter schools reviewed in FY2007 had fund balance ratios greater than 10%. The remaining nine schools, or 33.3% of the total, had fund balance ratios of less than 10%.
- Twenty of the twenty-eight schools reviewed in FY2008 had fund balance ratios greater than 10%. The remaining eight schools, or 28.6% of the total, had fund balance ratios of less than 10%.

### ***Financial Performance Analysis***

A financial performance analysis evaluates an organization's overall financial health over a given period of time. It employs a variety of financial indicators commonly used in the private, public and nonprofit sectors such as the current ratio, the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards - payroll ratio, occupancy ratio and payroll + occupancy ratio - also was conducted.

The financial performance analysis employed in this report was an adaptation of the General Performance Assessment (GPA) fiscal analysis conducted annually by the District of Columbia Charter School Board to evaluate the fiscal stability of its individual charter schools. The performance of each school is summarized in a "report card" that uses a four point GPA scale to grade individual factors as well as provide an overall general performance assessment.

In both years studied, the financial performance results of the Chicago charter schools were **high**, indicating a positive financial performance record.

- In FY2007, the overall GPA score for the twenty-two Chicago charter schools reporting consistent financial data was 3.6, which corresponds to a B+ grade. This is a relatively high grade, indicating that the financial health and viability of the Chicago charter schools studied was very good. Ten schools (45.4%) had GPA scores of 3.7 or higher. The remaining twelve schools had GPAs of 2.8 to 3.6, or B grades.
- The overall Chicago charter school GPA score fell slightly from 3.6 in FY2007 to 3.3 in FY2008. This corresponds to a B grade. The grade means that the financial health and viability of the twenty- two Chicago charter schools studied remained high, although it slipped from the prior year. Eight schools (36.3%) had A grades, with GPAs of 3.7 or higher. Eleven schools had B grades, with GPAs between 2.7 and 3.6. Two schools – the Academy of Communications and Technology and the Perspectives Charter School had C grades. Their GPAs were 2.3 and 2.2 respectively. Finally, the Choir Academy Charter School received a D grade, with a GPA of just 1.4. Subsequently, the Choir Academy closed in 2008<sup>9</sup> and the Academy of Communications and Technology Charter School ceased providing education services in 2010.<sup>10</sup>

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<sup>9</sup> “Cash-Strapped Charter School to Close,” from Chicago Breaking News Center, November 20, 2008. See <http://Archive.Chicagobreakingnews.Com/2008/11/A-Financially-Troubled-Chicago-School-Geared.Html>.

<sup>10</sup> ACT voluntarily suspended educational services in 2010 and may continue to provide educational services after submitting the appropriate materials to the Board of Education. Information provided by CPS, April 15, 2011. Also, see [http://www.cps.edu/About\\_CPS/The\\_Board\\_of\\_Education/Documents/BoardActions/2010\\_05/10-0526-EX4.pdf](http://www.cps.edu/About_CPS/The_Board_of_Education/Documents/BoardActions/2010_05/10-0526-EX4.pdf)

**Chicago Charter School Financial Performance Indicators FY2007**

| <b>Charter School</b>                      | <b>Current Ratio Grade</b> | <b>Fixed Assets Ratio Grade</b> | <b>Capitalization Ratio Grade*</b> | <b>Debt to Worth Ratio Grade</b> | <b>Occupancy Ratio Grade</b> | <b>Instruction Ratio Grade</b> | <b>Profit Margin Ratio Grade*</b> | <b>GPA</b> | <b>Grade</b> |
|--|----------------------------|---------------------------------|------------------------------------|----------------------------------|------------------------------|--------------------------------|-----------------------------------|------------|--------------|
| Legacy Charter School                      | 4.0                        | 3.0                             | 6.0                                | 4.0                              | 4.0                          | 4.0                            | 6.0                               | 4.4        | A            |
| ACE Technical Charter School               | 4.0                        | 4.0                             | 6.0                                | 4.0                              | 4.0                          | 2.0                            | 6.0                               | 4.3        | A            |
| Namaste Charter School                     | 4.0                        | 3.0                             | 6.0                                | 4.0                              | 3.5                          | 3.0                            | 6.0                               | 4.2        | A            |
| Providence Englewood Charter School        | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 3.0                          | 3.0                            | 6.0                               | 4.2        | A            |
| Passages Charter School                    | 4.0                        | 4.0                             | 6.0                                | 4.0                              | 2.5                          | 3.5                            | 5.3                               | 4.2        | A            |
| Erie Elementary Charter School             | 4.0                        | 4.0                             | 6.0                                | 4.0                              | 3.5                          | 2.0                            | 4.5                               | 4.0        | A            |
| KIPP Ascend Academy Charter School         | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 2.5                          | 2.5                            | 4.5                               | 3.9        | A-           |
| Noble Street Charter School                | 4.0                        | 3.0                             | 4.5                                | 3.0                              | 2.5                          | 4.0                            | 6.0                               | 3.9        | A-           |
| Young Women's Leadership Charter School    | 4.0                        | 4.0                             | 6.0                                | 4.0                              | 3.5                          | 0.5                            | 4.5                               | 3.8        | A-           |
| Youth Connection Charter School (YCCS)     | 3.5                        | 0.0                             | 6.0                                | 4.0                              | 4.0                          | 4.0                            | 4.5                               | 3.7        | A-           |
| Catalyst Charter School - Howland          | 2.0                        | 0.0                             | 6.0                                | 4.0                              | 3.5                          | 3.5                            | 6.0                               | 3.6        | B+           |
| North Lawndale College Prep Charter School | 4.0                        | 1.5                             | 6.0                                | 4.0                              | 3.5                          | 1.0                            | 4.5                               | 3.5        | B+           |
| Betty Shabazz International Charter School | 3.5                        | 3.5                             | 6.0                                | 4.0                              | 3.5                          | 0.0                            | 3.8                               | 3.5        | B+           |
| Bronzeville Lighthouse Charter School      | 3.0                        | 3.0                             | 4.5                                | 3.0                              | 3.5                          | 2.5                            | 4.5                               | 3.4        | B            |
| Chicago International Charter School       | 2.0                        | 3.5                             | 3.0                                | 1.5                              | 4.0                          | 4.0                            | 6.0                               | 3.4        | B            |
| L.E.A.R.N. Charter School                  | 4.0                        | 0.0                             | 6.0                                | 4.0                              | 4.0                          | 1.0                            | 4.5                               | 3.4        | B            |
| Perspectives Charter School                | 4.0                        | 2.5                             | 5.3                                | 3.5                              | 3.0                          | 1.0                            | 3.8                               | 3.3        | B            |
| Chicago Mathematics and Science Academy    | 2.0                        | 3.0                             | 4.5                                | 3.0                              | 3.0                          | 1.5                            | 5.3                               | 3.2        | B            |
| UNO Charter School                         | 3.5                        | 3.0                             | 3.0                                | 0.5                              | 3.5                          | 4.0                            | 4.5                               | 3.1        | B            |
| Academy of Communications and Technology   | 3.0                        | 0.0                             | 6.0                                | 4.0                              | 3.5                          | 0.5                            | 4.5                               | 3.1        | B            |
| Choir Academy Charter School of Chicago    | 3.0                        | 4.0                             | 3.8                                | 2.0                              | 3.0                          | 1.0                            | 4.5                               | 3.0        | B            |
| Chicago Virtual Charter School             | 1.5                        | 4.0                             | 1.5                                | 4.0                              | 2.0                          | 2.0                            | 4.5                               | 2.8        | B-           |
| <b>AVERAGE</b>                             | <b>3.4</b>                 | <b>2.7</b>                      | <b>5.2</b>                         | <b>3.5</b>                       | <b>3.3</b>                   | <b>2.3</b>                     | <b>5.0</b>                        | <b>3.6</b> | <b>B+</b>    |
| <b>MEDIAN</b>                              | <b>4.0</b>                 | <b>3.0</b>                      | <b>6.0</b>                         | <b>4.0</b>                       | <b>3.5</b>                   | <b>2.3</b>                     | <b>4.5</b>                        | <b>3.5</b> | <b>B+</b>    |

Source: Chicago charter school audited financial statements FY2007

\* The capitalization ratio and profit margin ratio grades were weighted due to their greater financial importance. Each grade was multiplied by a weight of 1.5 to arrive at a final grade.

Complete financial information was not available for eight charter schools: Amandla Charter school, ASPRA Charter School, Polaris Charter Academy, Galapagos Elementary Charter School, Henry Ford Academy/Powder House High Charter School, Alain Locke Charter Academy, the University of Chicago Charter School, Urban Prep Academy for Young Men Charter School

**Chicago Charter School Financial Performance Indicators FY2008**

| <b>Charter School</b>                      | <b>Current Ratio Grade</b> | <b>Fixed Assets Ratio Grade</b> | <b>Capitalization Ratio Grade*</b> | <b>Debt to Worth Ratio Grade</b> | <b>Occupancy Ratio Grade</b> | <b>Instruction Ratio Grade</b> | <b>Profit Margin Ratio Grade*</b> | <b>GPA</b> | <b>Grade</b> |
|--|----------------------------|---------------------------------|------------------------------------|----------------------------------|------------------------------|--------------------------------|-----------------------------------|------------|--------------|
| Providence Englewood Charter School        | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 2.5                          | 3.0                            | 6.0                               | 4.1        | A-           |
| Namaste Charter School*                    | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 3.0                          | 2.0                            | 6.0                               | 4.1        | A            |
| Youth Connection Charter School (YCCS)     | 3.0                        | 3.0                             | 5.3                                | 3.5                              | 4.0                          | 4.0                            | 4.5                               | 3.9        | A-           |
| Legacy Charter School                      | 4.0                        | 3.0                             | 6.0                                | 0.0                              | 3.5                          | 4.0                            | 6.0                               | 3.8        | A-           |
| L.E.A.R.N. Charter School                  | 4.0                        | 1.5                             | 6.0                                | 4.0                              | 4.0                          | 1.5                            | 5.3                               | 3.8        | A-           |
| Erie Elementary Charter School             | 3.0                        | 3.5                             | 6.0                                | 4.0                              | 3.5                          | 1.5                            | 4.5                               | 3.7        | A-           |
| KIPP Ascend Academy Charter School         | 4.0                        | 3.0                             | 6.0                                | 4.0                              | 3.0                          | 1.5                            | 4.5                               | 3.7        | A-           |
| Young Women's Leadership Charter School    | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 3.5                          | 0.5                            | 4.5                               | 3.7        | A-           |
| Betty Shabazz International Charter School | 4.0                        | 3.5                             | 6.0                                | 4.0                              | 3.0                          | 0.5                            | 4.5                               | 3.6        | B+           |
| Chicago Mathematics and Science Academy    | 3.0                        | 4.0                             | 6.0                                | 4.0                              | 3.0                          | 1.0                            | 4.5                               | 3.6        | B+           |
| ACE Technical Charter School               | 2.0                        | 3.5                             | 6.0                                | 4.0                              | 4.0                          | 1.0                            | 4.5                               | 3.6        | B+           |
| Chicago International Charter School       | 3.5                        | 2.5                             | 3.8                                | 2.0                              | 4.0                          | 4.0                            | 5.3                               | 3.6        | B+           |
| North Lawndale College Prep Charter School | 4.0                        | 2.0                             | 6.0                                | 4.0                              | 3.5                          | 1.0                            | 4.5                               | 3.6        | B+           |
| Chicago Virtual Charter School             | 2.5                        | 3.5                             | 4.5                                | 2.5                              | 2.5                          | 4.0                            | 5.3                               | 3.5        | B+           |
| Noble Street Charter School                | 4.0                        | 2.5                             | 4.5                                | 3.0                              | 2.5                          | 2.5                            | 4.5                               | 3.4        | B            |
| Catalyst Charter School - Howland          | 1.0                        | 2.0                             | 5.3                                | 3.5                              | 3.5                          | 2.5                            | 4.5                               | 3.2        | B            |
| Passages Charter School                    | 3.0                        | 3.0                             | 5.3                                | 3.5                              | 3.5                          | 2.5                            | 0.8                               | 3.1        | B            |
| UNO Charter School                         | 4.0                        | 3.5                             | 0.8                                | 0.0                              | 3.5                          | 4.0                            | 4.5                               | 2.9        | B-           |
| Bronzeville Lighthouse Charter School      | 2.5                        | 3.0                             | 3.8                                | 2.5                              | 3.0                          | 0.5                            | 3.8                               | 2.7        | B-           |
| Academy of Communications and Technology   | 1.0                        | 0.0                             | 5.3                                | 3.5                              | 3.0                          | 0.5                            | 3.0                               | 2.3        | C            |
| Perspectives Charter School                | 3.0                        | 2.0                             | 3.8                                | 2.0                              | 3.0                          | 0.0                            | 1.5                               | 2.2        | C            |
| Choir Academy Charter School of Chicago    | 1.5                        | 4.0                             | 0.8                                | 0.0                              | 3.0                          | 0.0                            | 0.8                               | 1.4        | D            |
| <b>AVERAGE</b>                             | <b>3.1</b>                 | <b>2.9</b>                      | <b>4.9</b>                         | <b>3.0</b>                       | <b>3.3</b>                   | <b>1.9</b>                     | <b>4.2</b>                        | <b>3.3</b> | <b>B</b>     |
| <b>MEDIAN</b>                              | <b>3.3</b>                 | <b>3.0</b>                      | <b>5.6</b>                         | <b>3.5</b>                       | <b>3.3</b>                   | <b>1.5</b>                     | <b>4.5</b>                        | <b>3.6</b> | <b>B+</b>    |

**Source:** Chicago charter school audited financial statements FY2008

\* The capitalization ratio and profit margin ratio grades were weighted due to their greater financial importance. Each grade was multiplied by a weight of 1.5 to arrive at a final grade.

Complete financial information was not available for eight charter schools: Amandla Charter school, ASPIRA Charter School, Polaris Charter Academy, Galapagos Elementary Charter School, Henry Ford Academy/Power House High Charter School, Alain Locke Charter Academy, the University of Chicago Charter School, Urban Prep Academy for Young Men Charter School

## Benchmark Analysis Conclusions

As part of the GPA analysis, we used several indicators to measure individual charter school performance against benchmarked standards.

- **Payroll Ratio < 50%:** This indicator isolates payroll costs from total instruction costs and then divides them by gross revenue. Increasing amounts spent on payroll means that less money is available for other school activities and functions. A payroll ratio of less than 50% is desirable as it means that personnel costs are not consuming a majority of expenses. In FY2007 ten of twenty-two schools had payroll ratios of less than 50%. In FY2008 the number of charter schools with payroll ratios of 50% or less fell to six of twenty-two as payroll expenses consumed greater shares of the remaining sixteen schools' resources. High payroll ratios may be difficult to sustain over time absent new revenues or reduced costs.

It is important to note that payroll costs may well increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue is that increased personnel costs do place a fiscal strain on school budgets that must be planned for and met, either through increases in revenues or reductions other areas of expenditure.

- **Occupancy Ratio < 25%:** The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. An occupancy ratio of 25% or greater means that the school may be using too many resources to pay for facility expenses. The occupancy ratios of all Chicago charter schools were less than 25% in FY2007 and FY2008. This means that the schools were not using an excessive amount of resources to occupy and maintain their facilities.
- **Payroll + Occupancy Ratio < 75%:** This measure combines the payroll and occupancy ratios to provide a measure of the degree to which gross revenues are used to pay for basic operating costs. A ratio higher than 75% indicates that the school may be using too high a proportion of resources to pay for basic operating costs. In both years analyzed a majority of the twenty- two schools had payroll + occupancy ratios of less than 75%. In FY2007 fifteen of the twenty charter schools analyzed had payroll + occupancy ratios of less than 75%, while in FY2008, the number of schools dropped slightly to fourteen. The majority of schools did not use too high a proportion of resources for basic operations in either year.

### **POLICY RECOMMENDATION: REQUIRE CONSISTENT FINANCIAL REPORTING**

The lack of standardized, consistent categories for financial reporting makes it very difficult for stakeholders to analyze Chicago charter school financial data and trends. The Civic Federation believes that CPS should require all charter schools to prepare and publish their financial reports in a consistent manner, grouping individual line items into revenue and expense categories that are comparable across schools and with CPS financial categories. These categories should correspond to the categories in the CPS Statement of Activities in the district's Comprehensive Annual Financial Reports. This will allow for greater financial transparency and accountability

as the schools' financial performance can be regularly assessed and compared by all stakeholders.

| <b>Proposed Charter School Fiscal Reporting Categories</b> |                           |
|--|---------------------------|
| <b>Expense Categories</b>                                  | <b>Revenue Categories</b> |
| Instruction  | Federal                   |
| Pupil Support Services                                     | State                     |
| Administrative Support Services                            | Local (CPS)               |
| Facilities   | School-Based              |
| Other  | Other                     |

## **STRUCTURE OF REPORT**

This report includes six chapters:

1. *Charter Schools in the U.S.:* An overview of the state of American charter schools, including a description of recent major policy studies of charter school performance.
2. *Charter School Finance in the U.S.:* An overview of recent relevant policy research on charter school finance.
3. *Charter Schools in Illinois:* A description of the history and current state of charter schools in Illinois. This includes a legislative history of the charter school law.
4. *Charter Schools in Chicago:* A description of the history and current status of Chicago charter schools. This includes a discussion of the charter school development process as well as financial management and compliance requirements.
5. *Charter School Revenues and Expenses:* An overview and analysis of Chicago charter school revenues and expenses in FY2007 and FY2008. Three different types of analyses were provided: 1) program expense analysis, which provides an evaluation of program-related (i.e., direct service) activities versus other activities; 2) instructional expense analysis, which evaluates how much of a charter school's expenses are spent in the classroom on instruction-related expenses; and 3) a review of charter school revenues that includes a description of funding sources, an evaluation of revenues by source and a discussion of school-based revenues.
6. *Charter School Financial Indicator Analysis:* An evaluation of the fiscal health of Chicago charter schools. Four different types of financial indicator analysis were employed to provide a comprehensive picture of the financial condition of the charter schools: 1) a financial operations analysis; 2) a fiscal viability analysis based on year-end balances; 3) a fund balance ratio analysis; and 4) a financial performance analysis.

## Chapter One

### CHARTER SCHOOLS IN THE UNITED STATES

Charter schools are independent public schools that are exempt from many of the rules and regulations imposed on traditional public schools. In return for operational flexibility, the schools are held accountable for the goals they present in their charters. Failure to successfully meet those goals can result in termination of the charter agreement. Charter schools can be established from pre-existing public schools or created as new schools.

Typically, charter schools operate under the terms of a charter or contract with a state educational agency or a local school district. In certain cases, the charter may be authorized by a university or an independent entity. The charter is granted for a specified period of time. Charters are usually first offered for a period of three to five years. Most states award charters for a period of 10 years or less, though Arizona will award initial charters for 15 years.<sup>11</sup>

Most charter schools control their own purchasing, hiring, scheduling and curriculum functions, according to the U.S. Department of Education's national study *The State of Charter Schools 2000*. Many also control admissions, student assessments, and their budget. *The State of Charter Schools 2000* also found that 90% of all charter schools used achievement tests as a means of demonstrating accountability to their chartering agency, local school boards, and/or state educational authorities.<sup>12</sup>

Approximately 2,700 charter schools served nearly 700,000 students or 1.5% of all public school students nationwide in 2003-2004.<sup>13</sup> By 2005-2006, there were approximately 3,600 charter schools serving over one million students.<sup>14</sup> The Center for Education Reform reports that in 2008 the number of charter schools had grown to 4,128 schools serving 1.24 million students in 40 states and the District of Columbia.<sup>15</sup>

Charter schools are usually small in size, with an average enrollment in 2008 of 328 students.<sup>16</sup> According to *The State of Charter Schools 2000*, over two-thirds of all charter schools were

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<sup>11</sup> Carol Ascher et al., *The Finance Gap: Charter Schools and their Facilities* (New York: Institute for Education and Social Policy, Steinhardt School of Education at New York University, 2004), <http://www.liscnet.org/resources>, p. 6; and the Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=cLaw>.

<sup>12</sup> United States Department of Education, *The State of Charter Schools 2000*, <http://www.ed.gov/PDFDocs/4yrrpt.pdf>, pp. 1-3.

<sup>13</sup> Legislative Analyst's Office, *Assessing California's Charter Schools* (January 20, 2004), [http://www.lao.ca.gov/2004/charter\\_schools/012004\\_charter\\_schools.pdf](http://www.lao.ca.gov/2004/charter_schools/012004_charter_schools.pdf), pp. 8-9.

<sup>14</sup> The Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=document&documentID=1964>.

<sup>15</sup> Center for Educational Reform. *Annual Survey of America's Charter Schools*. (Washington, D.C., July 2008), p. 7.

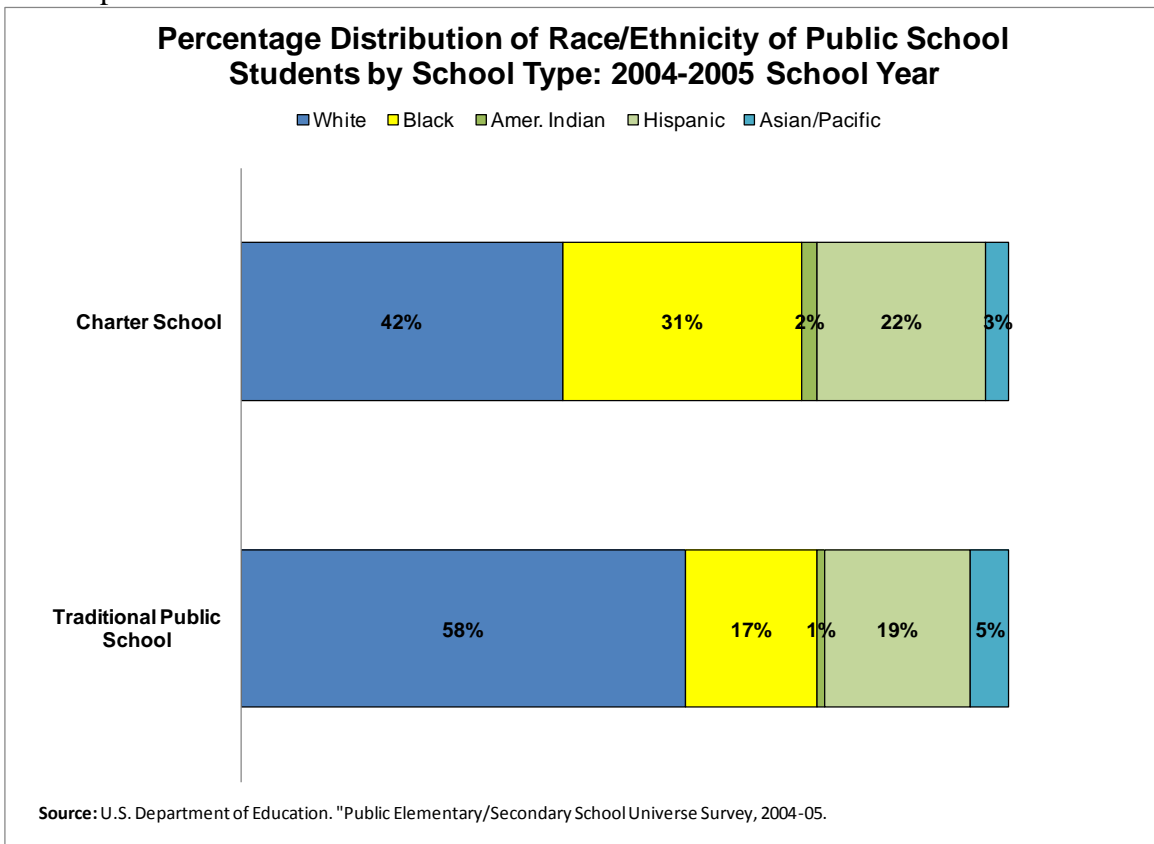
<sup>16</sup> Center for Educational Reform. *Annual Survey of America's Charter Schools*. (Washington, D.C., July 2008), p. 9.



established to realize an alternative vision of the educational process, while 25% were created to serve a target population.<sup>17</sup>

Minnesota was the first state to enact a charter school law in 1991, and California did so the following year. As of 2003, 40 states, the District of Columbia, and Puerto Rico had authorized the establishment of charter schools. Of the 40 states that authorized charter schools, 18 allow an unlimited number to operate, 13 have a statewide cap on the number operating, seven states have separate caps for start-up charters and for traditional schools converting to charters, and two states have caps linked to specific circumstances.<sup>18</sup> Seventy-six percent of charter schools in 2003 began as new, startup facilities; the remaining 24% were converted from a traditional public or private school.<sup>19</sup>

Charter schools proportionately tend to enroll more minority than white students. During the 2004-2005 school year, 42% of charter school students were white, compared to 58% of all public school students; 31% of charter school students were African American, compared to 17% of all public school students; and 22% of charter school students were Hispanic, compared to 19% of all public school students.<sup>20</sup>



<sup>17</sup> United States Department of Education, *State of Charter Schools*, pp. 1-3.

<sup>18</sup> Legislative Analyst's Office, *Assessing California's Charter Schools*, p. 16.

<sup>19</sup> Ascher, *Finance Gap*, p. 6.

<sup>20</sup> U.S. Department of Education, National Center for Education Statistics. Common Core of Data, "Public Elementary/Secondary School Universe Survey," 2004-2005 at <http://nces.ed.gov/programs/coe/2007/section4/indicator32.asp>.

Charter schools have a history of controversy in the United States, and they remain a source of significant policy disputes at the national, state, and local levels. The federal No Child Left Behind Act (NCLB Act), which makes school choice an important part of federal efforts to improve low-performing schools, has intensified nation-wide debate about charter schools and other school choice programs since being signed into law in January 2002.<sup>21</sup>

Some of the controversy over charter schools derives from a fundamental debate about the nature of public education. Is it appropriate for private entities to operate tax supported public schools, and if so, should private entities be permitted to do so for profit? Is competition between schools an appropriate or effective way of improving school performance? Do charter schools have an obligation to serve an at-risk student population, or should school choice be offered to every student regardless of socio-economic considerations? Questions such as these focus discussion on whether charter schools should have a significant place or any place at all in the United States' public education system.

Charter school debates have also focused on pragmatic questions about how such schools should operate within the framework of a public education system. Who is responsible for charter school oversight and what level of oversight is adequate? Who should have the authority to enter into a charter agreement with a new school? How should charter schools be funded and how much funding should charter schools receive? Should the money used to fund charter schools come from the same sources as the money used to fund other public schools? What performance criteria should be used to determine whether a charter school has succeeded or failed? And what mechanisms should be in place to enforce penalties for failed charter schools? These are the types of considerations that govern discussions about the best way to implement charter school programs. Neither the public nor policymakers have reached consensus answers to these questions.

Currently, the most fraught charter school debates are waged in urban school districts that have turned to charter schools to achieve urban education reform. New York, Los Angeles, Chicago, Philadelphia, Washington D.C., and New Orleans are a few of the large school districts nationwide that envision charter schools as a means for revitalizing underperforming education systems. In these districts, those who see charter schools as an integral part of urban education reform applaud the rapidity and thoroughness of the change that charter schools can effect for their students. Charter school opponents question the wisdom of committing large school districts to an education model that has not had sufficient time to establish a reliable record of success.

On-going discussions in these cities also illustrate how charter school debates are strongly shaped by the circumstances of particular school districts and local political pressures. In New York, Chicago, and Los Angeles, the commitment to charter schools is closely linked to the issue

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<sup>21</sup> No Child Left Behind stipulates that local education agencies (LEAs) must “give students attending schools identified for improvement, corrective action, or restructuring the opportunity to attend a better public school, which may include a public charter school, within the school district.” United States Department of Education, “The No Child Left Behind Act of 2001 Executive Summary,” <http://www.ed.gov/nclb/overview/intro/execsumm.html>.

of mayoral control of the school system.<sup>22</sup> In Philadelphia, charter school debates have focused on the city's partnership with Edison Schools, Inc., a for-profit school management company that was awarded a contract to manage 20 of the city's public schools in 2001.<sup>23</sup> Most recently, Louisiana's efforts to rebuild the New Orleans public school system after Hurricane Katrina have brought renewed attention to the extent of charter school involvement in some urban school districts. Eighteen of the 25 New Orleans schools that reopened in the spring of 2006 were charters.<sup>24</sup>

The following section provides a brief overview of nationwide and Chicago-related research on charter school performance.

### **Charter School Policy Research: A Brief Overview**

Over the last five years, university researchers and public policy institutes have generated an expanding body of research that evaluates charter schools and the effects of the charter school movement. The majority of this research attempts to compare the educational effectiveness of charter schools and public schools, and to evaluate the validity of arguments advanced on behalf of charter schools by their supporters. Researchers have also begun to examine issues surrounding charter school funding, particularly the issue of funding parity with traditional public schools. The research on charter school financial issues is reviewed in a subsequent chapter of this report.

### ***Charter School Performance Research***

Research studies have produced conflicting assessments of whether charter schools perform less well, as well, or better than traditional public schools. Studies by researchers at California State University at Los Angeles, Harvard University and the New York City Charter Schools Evaluation Project have found that charter schools have a positive impact on student learning. Studies by the National Assessment of Educational Progress (NAEP), the American Federation of Teachers (AFT) and the Center for Research on Education Outcomes (CREDO) at Stanford University however, have reached the opposite conclusion. A 2003 study by the RAND Corporation reported finding similar learning impacts between charter and traditional public schools.

These studies, released between 2002 and 2009, set the stage for an on-going debate among education and public policy researchers, who continue to produce conflicting evaluations of charter school performance. The disparities between researchers' findings persist even as researchers work to employ more sophisticated and reliable research methodologies.

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<sup>22</sup> Joel Rubin, "Mayor Puts Spotlight on Charter," *Los Angeles Times*, April 21, 2006; Joel Rubin, "Chicago Schools Offer L.A. a Cautionary Tale," *Chicago Tribune*, March 20, 2006; and David Zahniser, "The Takeover King," *LA Weekly*, May 18, 2006.

<sup>23</sup> Robert Strauss, "Edison Awarded 2 More Philadelphia Schools," *Washington Post*, May 16, 2005.

<sup>24</sup> Nancy Rutter Clark, "Hard Times in the Big Easy," [www.edutopia.org/magazine/ed1/article.php?id=art\\_1545&issue=jun\\_06](http://www.edutopia.org/magazine/ed1/article.php?id=art_1545&issue=jun_06). The rebuilding of the New Orleans school district is directed by the Louisiana-run Recovery School District.

## Charter School Performance Analyses Reporting Positive Learning Impacts

A 2002 study by researchers at California State University, Los Angeles compared the performance of charter and non-charter schools serving low-income California students. The study examined Academic Performance Index (API) test scores for 1999, 2000, and 2001. Researchers found that charter school students did not perform as well as non-charter students in the aggregate, but that charter students improved slightly more than non-charter students, by 53.4 points on the API as compared to 51.4 for non-charter schools. Most significantly, the percentage growth in API for charter schools serving 50% or more students in California's free or reduced lunch program (a proxy for low income level students) was 22.6% for charter schools versus 19.4% for non-charter schools. The researchers concluded that California charter schools did a better job of improving low-income student performance than comparable non-charter schools.<sup>25</sup>

In December 2004, Harvard University economist Caroline Hoxby published a study comparing charter school students to students attending the nearest traditional public school with a similar racial composition, which was assumed to be the public school that the charter student would most likely have attended.<sup>26</sup> The study used a comprehensive data set comprising data for 99% of the elementary students in U.S. charter schools.<sup>27</sup> Hoxby found that charter school students are 5.2% more likely to be proficient in reading and 3.2% more likely to be proficient in math on their state's exams than their peers in traditional public schools. Students attending charters in operation longer were more likely to have a proficiency advantage over peers in the matched public school. In charter schools that had been operating for between 9 and 11 years, the advantage in reading was 10.1%.<sup>28</sup> Overall, Hoxby concluded, charter schools were more likely than traditional public schools to raise achievement of poor students and Hispanic students.

*How New York City's Charter Schools Affect Achievement* by Caroline Hoxby, Sonali Murarka and Jenny Kang was published in September of 2009. It is the second report of the New York City Charter Schools Evaluation Project, a multi-year study of that city's charter schools.<sup>29</sup> The report evaluates data from the 2000-2001 through 2007-2008 academic year. Students are placed in New York City charter schools after participating in a random lottery. This study compares students who successfully "win" the lottery to attend charter schools and those who are "lotteried

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<sup>25</sup> Simeon P. Slovacek, Antony J. Kunnan, and Hae-Jin Kim, *California Charter Schools Serving Low-SES Students: An Analysis of the Academic Performance Index* (Los Angeles: California State University, Los Angeles, 2002).

<sup>26</sup> Caroline Hoxby, *Achievement in Charter Schools and Regular Public Schools in the United States: Understanding the Differences* (December 2004), <http://post.economics.harvard.edu/faculty/hoxby/papers.html>.

<sup>27</sup> Hoxby's study listed the total number of "relevant" charter school students in the United States as 50,479. The students covered by Hoxby's study are those who attend charter schools "with at least 10 students in the relevant grade" (11). She cited the United States Department of Education's *Common Core of Data, 2002-2003* as her source for the number of "relevant" charter school students. All of Hoxby's proficiency data were collected from individual states' education department websites.

<sup>28</sup> Caroline Hoxby, *Achievement in Charter Schools and Regular Public Schools in the United States: Understanding the Differences* (December 2004), <http://post.economics.harvard.edu/faculty/hoxby/papers.html>, p. 1.

<sup>29</sup> Caroline Hoxby, Sonali Murarka and Jenny Kang. *How New York City's Charter Schools Affect Achievement*. (Stanford, CA: The New York City Charter Evaluation Project, 2009).

out” or fail to secure a spot in a charter school and remain in a traditional public school. The two groups of students form an “apples to apples” basis of comparison as they possess identical characteristics of race, ethnicity, gender, sex, English proficiency and disability.

Some of the key findings in *How New York City’s Charter Schools Affect Achievement* include the following:

- Charter school applicants more likely to be African American and poor than Asian or white than average students in traditional public schools.
- Charter school lotteries are demonstrably random.
- A student attending a charter high school is 7% more likely to earn a diploma by age 20 for each year spent in that charter school.
- A student attending a charter school for grades K-8 would close about 86% of the math achievement gap between students in low income New York City neighborhoods such as Harlem compared to students in wealthy upstate Scarsdale. They would also close about 66% of the achievement gap in reading. This is in contrast to students in “lotteried out” traditional public schools who do not make much progress on closing the achievement gap.<sup>30</sup>
- The average charter school 8<sup>th</sup> grade student scored 680 on the state mathematics test compared to 650 for traditional public school students (A 650 score represents proficiency).<sup>31</sup>
- By the 3<sup>rd</sup> grade, the average charter school student scored 5.3 points higher than those students who “lost” the charter school lottery in English and 5.8 points more in math. After 3<sup>rd</sup> grade, charter school students gained an additional 2.4 to 3.6 points a year more than the public school students who failed to win the lottery.<sup>32</sup>

### Charter School Performance Analyses Reporting Similar Learning Impacts

The RAND Corporation evaluated California charter schools in 2003 for the state’s Legislative Analyst’s Office. It compared the academic performance of charter schools with a matched set of traditional public schools that were selected for their similar ethnic and socioeconomic characteristics. Overall, RAND found that charter schools showed year-to-year achievements comparable to other public schools. Students in classroom-based charters scored higher than public school students in reading, but slightly lower in mathematics. No significant difference was found when charter schools’ average API growth rate was compared with that of public schools. The study did find, however, that students in nonclassroom-based charters scored lower than either of the other two types of institutions in both reading and math.<sup>33</sup>

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<sup>30</sup> Caroline Hoxby, Sonali Murarka and Jenny Kang. *How New York City’s Charter Schools Affect Achievement*. (Stanford, CA: The New York City Charter Evaluation Project, 2009), pp. vii-viii.

<sup>31</sup> John Hechinger and Ianthe Jeanne Dugan. “Charter Schools Pass Key Test in Study,” in *Wall Street Journal*, September 22, 2009.

<sup>32</sup> Debra Viadero. “New York City Charters Found to Close Gaps,” in *Education Week*. September 22, 2009.

<sup>33</sup> A classroom-based charter school offers at least 80% of instruction in a traditional, classroom setting. A nonclassroom-based charter school offers over 20% of instruction in a location or setting other than a classroom. These instructional modes include independent study, computer-based study and work study. See Legislative Analyst’s Office, *Assessing California’s Charter Schools*, p. 5.

## Charter School Performance Analyses Reporting Minimal or Negative Learning Impacts

Several published reports have found that charter schools have had a negligible or negative impact on student performance. The National Assessment of Educational Progress (NAEP), which was established by Congress in 1969 to objectively evaluate the state of American education, released a report in 2004 that analyzed two sets of approximately 3,250 4<sup>th</sup> grade students, one of which was designated for analysis in reading and the other for analysis in mathematics. These students were randomly selected from 150 charter schools nationwide, and their performance was compared with two sets of approximately 188,000 traditional public school students.<sup>34</sup> This study showed that 58% of 4<sup>th</sup> grade students in charter schools had attained at least a basic level in reading, compared with 62% in public schools. Sixty nine percent of charter school students attained basic mathematics proficiency, as compared to 76% of traditional public school students. Overall, low income students in traditional public schools tended to outperform their charter school counterparts, the study said. It also concluded, contrary to Hoxby's 2004 study, that charter schools got better results in the first year of operation than in subsequent years.<sup>35</sup>

The American Federation of Teachers (AFT) commissioned a study that provided additional interpretation of the NAEP data. Also released in 2004, this study found that charter school students in grades 4 and 8 had lower achievement in both reading and math than their counterparts in traditional public schools. Except for 8<sup>th</sup> grade reading scores, all of these differences were statistically significant. The percentage of charter school students performing at or above basic levels and at or above proficient levels was lower than corresponding percentages for traditional public school students.<sup>36</sup>

Two studies have since been published using NAEP data from 2003 that have reinforced the NAEP and AFT reports' 2004 findings. Both of these studies used statistical models to control for a variety of socio-economic factors that might have influenced test results. The 2004 NAEP and AFT studies failed to use such statistical controls, and their findings were widely criticized for this reason.

The first of these studies was released in January 2006 by the National Center for the Study of Privatization in Education, part of Columbia University's Teachers College. The two University

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<sup>34</sup> The 150 charter schools were selected after the 2003 NAEP reading and mathematics assessments had been administered to all traditional and charter public schools. The schools were selected for proportionality to the total population of charter school students in a given state or jurisdiction. Charter schools were oversampled in California, Michigan, and Texas because charter students in those states accounted for almost 50% of all charter students nationwide. Telephone interviews with the charters and data from the National Center for Education Statistics' *Common Core of Data* were also used to finalize the sample. National Assessment of Educational Progress, *America's Charter Schools: Results from the NAEP 2003 Pilot Study* (2004), <http://neces.ed.gov/nationsreportcard/pdf/studies/2005456.pdf>, 3.

<sup>35</sup> National Assessment of Educational Progress, *America's Charter Schools: Results from the NAEP 2003 Pilot Study*. Also see Michael Dobbs, "Charter Schools Fare No Better, Study Says: Survey Gives Edge to Public School Students," *Washington Post*, December 16, 2004.

<sup>36</sup> F. Howard Nelson, et al., "Charter School Achievement on the 2003 National Assessment of Educational Progress" (American Federation of Teachers, AFL-CIO, August 2004), <http://www.aft.org/pubs-reports/downloads/teachers/NAEPCharterSchoolReport.pdf>.

of Illinois researchers who authored this study found that public schools generally outperform both private and charter schools once test result data were controlled for socio-economic factors. This study used 2003 NAEP test results in mathematics for 4<sup>th</sup> and 8<sup>th</sup> grade students.<sup>37</sup> The study's authors argued that focusing on math alone would provide a better measure of school performance because math learning occurs predominately in the classroom.<sup>38</sup> For the 4<sup>th</sup> grade, the study determined that charter school students' aggregate scores on the NAEP test were 6.1% lower than public school students. Their scores were 4.4% lower when processed with the statistical model that controlled for socio-economic factors.<sup>39</sup> Eighth-grade results were more encouraging for charter schools: charter school students' score was 0.9% higher in the aggregate and 2.4% higher when processed using the researchers' statistical model. The results for the eighth-grade charter school students, however, were not statistically significant.<sup>40</sup>

The National Center for Education Statistics (NCES) released a study in August 2006 that also reinforced the NAEP/AFT findings. The NCES study found that traditional public school students "scored 4.2 points higher in reading and 4.7 points higher in math on the 500-point National Assessment of Educational Progress test for fourth graders, after adjusting for such student characteristics as family income."<sup>41</sup> The NCES study did find, however, that traditional public schools' edge over charter schools' test scores disappeared when "when researchers looked only at schools in cities with high minority populations."<sup>42</sup>

In 2005 the Economic Policy Institute (EPI) produced an overview of charter school research called *The Charter School Dust-Up: Examining the Evidence on Enrollment and Achievement* by Martin Carnoy *et al.* The book's title refers to the vigorous public debate that followed the publications of Caroline Hoxby's study and the NAEP and AFT studies in 2004. After reviewing 19 studies of charter school performance conducted in 11 states and the District of

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<sup>37</sup> Christopher Lubienski and Sarah Theule Lubienski, "Charter, Private, Public Schools and Academic Achievement: New Evidence from NAEP Mathematics Data" (National Center for the Study of Privatization in Education, Teachers College, Columbia University, January 2006), <http://www.asu.edu/educ/epsI/EPRU/articles/EPRU-0601-137-OWI.pdf>. The fourth-grade data set included 190,147 students: 182,328 non-charter public school students, 4,718 private school students, and 3,101 charter school students. The eighth-grade data set included 153,189 students: 146,512 non-charter public school students, 5,073 private school students, and 1,604 charter school students. For both the fourth- and eighth-grade data sets, private school students were analyzed by Catholic, Lutheran, Conservative Christian, and Other Private subcategories.

<sup>38</sup> Christopher Lubienski and Sarah Theule Lubienski, "Charter, Private, Public Schools and Academic Achievement: New Evidence from NAEP Mathematics Data" (National Center for the Study of Privatization in Education, Teachers College, Columbia University, January 2006), <http://www.asu.edu/educ/epsI/EPRU/articles/EPRU-0601-137-OWI.pdf>, p. 2.

<sup>39</sup> Christopher Lubienski and Sarah Theule Lubienski, "Charter, Private, Public Schools and Academic Achievement: New Evidence from NAEP Mathematics Data" (National Center for the Study of Privatization in Education, Teachers College, Columbia University, January 2006), <http://www.asu.edu/educ/epsI/EPRU/articles/EPRU-0601-137-OWI.pdf>, p. 34. The primary finding in this study pertained to private schools rather than charter schools. The study showed that, even though aggregate private school scores are higher than aggregate public school scores, public schools outperform private schools once test results have been controlled for a range of socio-economic factors, including "measures of socioeconomic status, race/ethnicity, gender, disability, limited English proficiency, and school location" (Christopher Lubienski and Sarah Theule Lubienski, p. 3).

<sup>40</sup> Christopher Lubienski and Sarah Theule Lubienski, p. 35.

<sup>41</sup> Jay Mathews, "Charter Schools Lag, Study Finds," *Washington Post*, August 23, 2006.

<sup>42</sup> Jay Mathews, "Charter Schools Lag, Study Finds," *Washington Post*, August 23, 2006.

Columbia, EPI researchers concluded that, “there is no evidence that, on average, charter schools out-perform regular public schools.” On the contrary, they found that, “there is evidence that the average impact of charter schools [on student learning] is negative.” The study’s authors added that evidence of negative effects “comes particularly from those studies that use the strongest methodologies to discover causal effects, although the evidence of a negative effect is somewhat localized to specific states.”<sup>43</sup>

*Multiple Choice: Charter School Performance in 16 States* was published by the Center for Research on Education Outcomes (CREDO) at Stanford University in June, 2009. CREDO researchers examined data for 2,403 charter schools in 15 states and the District of Columbia to create a national pooled evaluation of the impact of charter schools on student achievement. For each charter school student, a “virtual twin” was created with the exact same characteristics in terms of demographics, language proficiency and participation in special education or subsidized lunch programs. This permitted a comparison of the performance of students in charter schools with their traditional public school counterparts.<sup>44</sup>

The CREDO study found that the vast majority (83%) of charter school reported math achievement gains were the same as or significantly below those reported for traditional public schools. Approximately 46% of the charter schools had math gains that were indistinguishable from traditional public schools and 37% reported math gain well below those of their traditional counterparts.<sup>45</sup> Other key findings of the CREDO study included:<sup>46</sup>

- Charter schools student learning lags by 0.1 standard deviations in reading and 0.3 standard deviations in math as compared to their traditional school counterparts.
- Charter school students have much higher rates of learning in elementary and middle schools, but significantly lower learning rates if they attend charter high schools or multi-level schools.
- Charter students who are not in poverty and who do not have limited English proficiency do much worse than their traditional public school peers.
- Learning gains for Black and Hispanic charter school students are less than for their peers in traditional public schools although the reverse was true for charter school students in poverty.
- Over time, charter school students do report learning gains. In the first year of enrolling in a charter school students may experience sharp declines in academic learning. However, by years two and three, there is a change to positive learning gains.

The CREDO researchers found significant differences in academic results among the states studied. In five states (Arkansas, Colorado, Illinois, Louisiana and Missouri), charter schools had significantly higher learning gains than their traditional public school counterparts. In five

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<sup>43</sup> Martin Carnoy, Rebecca Jacobsen, Lawrence Michel, and Richard Rothstein, *The Charter School Dust-Up: Examining the Evidence of Enrollment and Achievement* (Teachers College Press: New York, 2005), [http://www.epinet.org/content.cfm/book\\_charter\\_school](http://www.epinet.org/content.cfm/book_charter_school), 2.

<sup>44</sup> Center for Research on Education Outcomes. *Multiple Choice: Charter School Performance in 16 States*. (Stanford, CA: Stanford University), June, 2009, p. 1.

<sup>45</sup> Center for Research on Education Outcomes. *Multiple Choice: Charter School Performance in 16 States*. (Stanford, CA: Stanford University), June, 2009, p. 3.

<sup>46</sup> Center for Research on Education Outcomes. *Multiple Choice: Charter School Performance in 16 States*. (Stanford, CA: Stanford University), June, 2009, p. 6.



other states, charter school students reported lower levels of academic achievement (Arizona, Florida, Minnesota, New Mexico, Ohio and Texas). Three states (California, Georgia and North Carolina) and the District of Columbia reported mixed results for charter schools or gains that were indistinguishable between charter and traditional public schools.<sup>47</sup>

### Why is there Such a Disparity in Charter School Report Findings?

Why do charter school studies draw such different conclusions? The inherent difficulty of making accurate, meaningful comparisons between charter school and public school students is a significant factor in accounting for researchers' divergent conclusions. There is sharp disagreement about the appropriate methodologies for making these assessments.<sup>48</sup> Researchers have also found that it is problematic to generalize about charter school performance because charter schools are designed to serve very different student populations, and because widely differing state laws exert a strong influence on charter schools' potential for success.

An example of two studies drawing very different conclusions is the two most significant 2009 charter school evaluation reports: *Multiple Choice: Charter School Performance in 16 States* and *How New York City's Charter Schools Affect Achievement*. The different findings are quite possibly the result of using different methodologies. The New York City study (*How New York City's Charter Schools Affect Achievement*) evaluated charter schools in just one jurisdiction in which there was a good comparative sample of similar students who had "won" or "lost" a charter school lottery while the CREDO authored study (*Multiple Choice: Charter School Performance in 16 States*) looked at charters schools across a number of states and used a matching method to extrapolate results. Other possible explanations for the discrepancy in findings, as discussed in a recent *Education Week* report on the studies could be statistical and/or mathematical errors or New York City charter schools may have a higher standard of quality than charter schools in other states.<sup>49</sup>

Two research initiatives were launched in late 2004 to try to address some of the methodological challenges in charter school analyses and to provide objective research that can be shared by researchers, governments and services providers. Research on a wide variety of K-12 public education reform issues currently is being undertaken at the Center on Reinventing Public Education (CRPE) at the University of Washington. The Center has two ongoing projects related to charter schools: "Doing Choice Right," and the National Charter School Research Project (NCSRP). The "Doing Choice Right" initiative addresses the practical problems faced during the implementation of choice programs and is funded by the Lynde and Harry Bradley, Annie E. Casey, and Bill and Melinda Gates Foundations. The National Charter School Research Project (NCSRP) funds and publishes research that examines the value-added effects of U.S. charter

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<sup>47</sup> Center for Research on Education Outcomes. *Multiple Choice: Charter School Performance in 16 States*. (Stanford, CA: Stanford University), June, 2009, p. 3.

<sup>48</sup> Carnoy et al. have suggested that, "A potentially encouraging result from the charter school dust-up of 2004 is that the policy community may now be better able to reach consensus on what standards are appropriate for judging evidence of educational effectiveness" (Ibid., 4).

<sup>49</sup> Debra Viadero. "New York City Charters Found to Close Gaps," in *Education Week*. September 22, 2009.

schools and provides the charter school and broader public education communities with research and information for ongoing improvement.<sup>50</sup>

### ***Recent Policy Studies of Chicago Charter Schools***

Recently, researchers have published several studies of Chicago Renaissance 2010 schools, which include charter schools. The Renaissance 2010 program is an initiative launched by Chicago Mayor Daley and the Chicago Public Schools to reform or recreate 100 Chicago schools. Of that amount, one-third will be established as charter schools, one-third as independent contract schools and one-third as small schools operated by the Chicago school district.<sup>51</sup> These reports have found mixed student performance results.

*High School Reform in Chicago Public Schools: Renaissance 2010*, authored by SRI International researchers in 2009, evaluated the early outcomes and instructional practices of 27 of the 49 Renaissance 2010 high schools. Of those 27 schools, 12 were charter schools. The researchers acknowledged that the paucity of outcomes data and lack of a valid comparison group make it difficult at this time to fully comprehend how well Renaissance 2010 schools are serving their student population.

The report found that Renaissance 2010 high school students have higher attendance rates than most other CPS high schools. However, even with attendance rates of 90%, the average Renaissance 2010 student still missed about 3 weeks of school. Achievement data did not show that the students had made the gains necessary to succeed in college. Furthermore, researchers reported that there was room for a good deal of room of improvement regarding instructional methods. Teachers were found to need stronger classroom management skills and the rigor of instruction remained at a basic or unsatisfactory level in most observed classrooms. Researchers cautioned that some of the problems could be attributed to the demands of a school's start-up period, when resources are stretched thin. In addition, faculty members are often new to teaching, lacking years of classroom experience.

There were some promising practices being employed in the Renaissance 2010 schools according to the SRI study. Performance data collected and analyzed by the schools were used to enhance the professional development of faculty. The ability of charter schools to have a longer school day and school year gives the ability to offer more instructional time, thereby potentially helping to improve academic skills and better prepare students for college.<sup>52</sup>

The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago published a study by Liz Brown and Eric Gutstein in 2009 entitled *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The study compared 76 neighborhood high schools with 12 charter high schools with junior classes reporting 2007-2008 ACT scores. It utilized data from the Office of New Schools charter reports and ACT test results

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<sup>50</sup> The Center on Reinventing Public Education website is at [http://www.crpe.org/cs/crpe/print/csr\\_docs/aboutus.htm](http://www.crpe.org/cs/crpe/print/csr_docs/aboutus.htm).

<sup>51</sup> <http://www.ren2010.cps.k12.il.us/types.shtml>.

<sup>52</sup> Lauren Cassidy, et al. *High School Reform in Chicago Public Schools: Renaissance 2010*. (Menlo Park, CA: SRI International, August 2009), p. 28

to analyze student population and performance<sup>53</sup> while data from Illinois State Board of Education 2006-2008 CPS report cards on individual high schools were used to evaluate school environment and teacher characteristics.<sup>54</sup>

Brown and Gutstein found that:<sup>55</sup>

- Charter high schools enroll 6% to 7% fewer low income students than neighborhood high schools;
- Neighborhood high schools had more than double the limited-English proficient students enrollments than neighborhood high schools;
- Charter high schools enrolled significantly fewer special needs students than neighborhood high schools;
- There was no statistical difference between charter and neighborhood high schools regarding ACT composite scores for 2006 through 2008 school years;
- Charter and CPS high school average class sizes and pupil to teacher ratios were comparable;
- More CPS teachers held Master's degrees (55%) versus charter high school educators (43%);
- CPS teachers had an average of 7.2 more years of teaching experience than charter educators; and
- Charter high school teachers earn an average of 15% less than CPS teachers while working a longer day.

The authors concluded that charter schools have failed to improve the “overall quality of, or equal access to, education for all of Chicago high school students.”<sup>56</sup> They argued that that the under-enrollment of special needs students in charter schools may be discriminatory and should be investigated. Finally, they expressed concerns about how charter school teacher employment practices threaten the sustainability of charter schools. According to national studies which include Chicago data, the charter school teacher attrition rates are 31%, as compared to a range of 11% to 14% for traditional public schools. In addition, those teachers most likely to leave charter school teaching are less experienced teachers, teachers holding only B.A. degrees and non-certified teachers.<sup>57</sup>

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<sup>53</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 12

<sup>54</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 17

<sup>55</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 2.

<sup>56</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 2.

<sup>57</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 26.

Based on these findings, Brown and Gutstein proposed a moratorium on new charter campuses until an independent agency conducts a publicly available review of charter school performance and management practices; that the CPS work with the General Assembly and Chicago Teachers Union to ensure fair wage and labor practice protections for charter school teachers and staff; and that CPS reduce its reliance on standardized test scores to justify changing the existence or governance of neighborhood schools to charter or other types of new schools.<sup>58</sup>

*Achievement and Attainment in Chicago Charter Schools* was a research effort by published by the RAND Corporation in 2009 that looked at the student body composition and achievement outcomes of Chicago charter schools.<sup>59</sup>

RAND researchers first attempted to identify the type of student attending charter schools in Chicago, focusing on whether charter schools were attracting high or low achieving students and if charter schools “skim” high achieving students? They found that, on average, charter schools differ only slightly from the citywide average and from the achievement level of peers in the CPS schools they transferred from. They also found that transferring students are moving to charter schools with similar or slightly lower proportions of students of the same race and ethnicity; in sum, there was no significant increase in racial or ethnic stratification.<sup>60</sup>

Second, the researchers evaluated the performance of Chicago charter schools relative to traditional CPS public schools. Specifically, they assessed whether charter schools are producing achievement gains. They also evaluated whether charter schools were increasing the likelihood of their students graduating, improving their scores on the ACT exam and increasing their probability of enrolling in college. The study concludes that positive effects were only clearly evident in charter high schools that also had a middle school grades. If an average 8<sup>th</sup> grade student continues on in a Chicago charter high school, he or she can expect to gain:

- a slight, half a point advantage in ACT composite scores;
- an advantage of 7 percentage points in the probability of graduating from high school; and
- an advantage of 11 percentage points in the probability of enrolling in college.

The RAND researchers caution that it is unclear if positive effects were due to charter status itself or because unconventional school grade configurations eliminate a change of schools between the 8<sup>th</sup> and 9<sup>th</sup> grades. They conclude that much more research is needed before any firm conclusions can be drawn about whether charter high schools produce positive effects in more traditional 9-12 grade school configurations and if CPS traditional schools could achieve positive effects by incorporating middle or even elementary grades.<sup>61</sup>

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<sup>58</sup> Liz Brown and Eric Gutstein. *The Charter Difference: A Comparison of Chicago Charter and Neighborhood High Schools*. The Collaborative for Equity and Justice and Education at the University of Illinois-Chicago, February 17, 2009, p. 3.

<sup>59</sup> Kevin Booker, Brian Gill, Ron Zimmer and Tim R. Sass. *Achievement and Attainment in Chicago Charter Schools*. (Santa Monica: RAND Corporation, 2009).

<sup>60</sup> Kevin Booker, Brian Gill, Ron Zimmer and Tim R. Sass. *Achievement and Attainment in Chicago Charter Schools*. (Santa Monica: RAND Corporation, 2009), p. ix.

<sup>61</sup> Kevin Booker, Brian Gill, Ron Zimmer and Tim R. Sass. *Achievement and Attainment in Chicago Charter Schools*. (Santa Monica: RAND Corporation, 2009).

## Chapter Two

### CHARTER SCHOOLS IN ILLINOIS

During the 2007-2008 academic year, there were 28 charter schools in Chicago and 7 in the rest of the state for a total of 35. The number grew to 39 in the 2008-2009 academic year, with 30 charter schools in Chicago, two in the Collar Counties and seven in downstate counties.<sup>62</sup>

The Illinois State Board of Education estimates that 30,601 students were enrolled in charter schools statewide in the 2008-2009 school year. That is a 19.4% increase from the prior year. Of that amount, 92.3% attended Chicago charter schools.

| <b>ILLINOIS CHARTER SCHOOL ENROLLMENT</b> |                  |                |              |
|---|------------------|----------------|--------------|
|   | <b>Downstate</b> | <b>Chicago</b> | <b>Total</b> |
| <b>2007-2008 Enrollment</b>               | 1,997            | 23,638         | 25,635       |
| <b>2008-2009 Estimated Enrollment</b>     | 2,062            | 28,539         | 30,601       |

Source: ISBE. Illinois Charter School Annual Report, January 2009, p. 7.

The average Illinois charter school class sizes tend to be smaller than its traditional public school counterpart. The percentage of students in free or reduced lunch programs in charter schools is much higher – 80.0% versus 40.0% - than in other schools. The same is true of the number of English language learner students. The percentage of minority students enrolled in charter versus traditional public schools is similar.

| <b>ILLINOIS CHARTER VS. TRADITIONAL PUBLIC SCHOOL ENROLLMENT</b> |                        |                       |
|--|------------------------|-----------------------|
|  | <b>Charter Schools</b> | <b>Public Schools</b> |
| <b>Average School Size*</b>                                      | 407                    | 496                   |
| <b>% of Minority Students**</b>                                  | 45.0%                  | 46.0%                 |
| <b>% of free/reduced lunch students***</b>                       | 80.0%                  | 40.0%                 |
| <b>% of special education students***</b>                        | 11.0%                  | 15.0%                 |
| <b>% of English language learner students***</b>                 | 32.0%                  | 7.0%                  |

\* 2008 school year

\*\* 2007 school year

\*\*\* 2006 school year

Source: Center on Reinventing Public Education

<sup>61</sup> Kevin Booker, Brian Gill, Ron Zimmer and Tim R. Sass. *Achievement and Attainment in Chicago Charter Schools*. (Santa Monica: RAND Corporation, 2009), p. x-xi.

<sup>62</sup> Illinois State Board of Education at [www.isbe.state.il.us/charter/pdf/charter\\_schools.pdf](http://www.isbe.state.il.us/charter/pdf/charter_schools.pdf).

## **Legislative History of Charter Schools in Illinois**

On April 10, 1996, Governor James Edgar signed into law Public Act 89-450, the first law in Illinois providing for the establishment and operation of charter schools. This law became Section 27A of the Illinois School Code, culminating over two years of effort by the legislation's sponsors and other charter school supporters. The statute subsequently has been amended thirteen times. While the statute's core components have remained essentially unchanged, several amendments have significantly altered the relationship between local school districts and charter schools.

Charter schools may be created by non-sectarian, non-profit corporations, school districts, or by voter referendum. Currently, state law allows for a maximum of 60 charter schools in Illinois. The law permits the City of Chicago to host 30 of the 60 schools. DuPage, Kane, Lake, McHenry, Will and suburban Cook County are authorized to charter 15 schools, and the remaining 15 schools may be located anywhere in the state's ninety-seven other counties.<sup>63</sup> In the 2004-2005 school year, 27 charter schools were operating in Illinois, serving over 13,000 students. Twenty charter schools were located in Chicago, two in East St. Louis, one in Springfield, one in Decatur, one in Cahokia, one in Venice, and one in Grayslake.<sup>64</sup>

The following sections explain in detail the provisions of Illinois's original Charter Schools Law and the effects of subsequent amendments.

### ***Original Charter Schools Law***

A statement of legislative intent in the Charter Schools Law declared that charter schools' flexible, innovative educational techniques stimulated students, teachers, and parents to strive for educational excellence, and that charter schools were therefore in the best interest of the people of Illinois.<sup>65</sup> The statute was intended to foster innovative teaching, facilitate the development of new student evaluation methods, encourage parental and community involvement in schools, and increase the number of rigorous, innovative educational opportunities for Illinois students, especially Illinois's at-risk student population.

To achieve these ends the law exempted Illinois charter schools from most state laws and School Code regulations, freeing charter schools to develop their own curricula and their own schedules for the school day and school year.<sup>66</sup> Charter schools were also exempted from union contract requirements agreed to by local school boards. They remained bound by six specifically enumerated state laws: the School Code's legal requirements pertaining to health and safety issues, the disciplining of students, and employee criminal background checks, as well as the Not-for-Profit Corporation Act, the Student Records Act, and the Abused and Neglected Child

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<sup>63</sup> The number of charter schools originally authorized was 45, with 15 permitted in Chicago. The law was amended in 2003 to increase the number of charter schools permitted in Illinois. See *Illinois School Code* 105 ILCS 5/27A-4(b).

<sup>64</sup> Illinois State Board of Education, *Illinois Charter School Annual Report* (January 2006), 1-6.

<sup>65</sup> *Illinois School Code*, 105 ILCS 5/27A-2 as adopted in Public Act 89-450.

<sup>66</sup> The legislation's sponsors argued explicitly that freeing charter schools from most School Code regulations would result in creative and flexible public educational opportunities. See State of Illinois, 89<sup>th</sup> General Assembly, Regular Session Senate Transcript (February 9, 1995), 65; and State of Illinois, 89<sup>th</sup> General Assembly, House of Representatives Transcript (February 27, 1996), 11.

Reporting Act. Charter schools were also subject to state laws prohibiting discrimination, meaning that charter schools must accept students with disabilities or students possessing limited English proficiency on the same basis as they accept other students.<sup>67</sup>

Illinois charter schools were also required to meet several requirements specified in the Charter Schools Law. First, they could not be selective or exclusive in their admissions policies. The only admissions preference charter schools were permitted to show was for the siblings of students already enrolled.<sup>68</sup> If a charter school could not admit all students who applied, it was required to use a lottery to determine which students would be admitted. Second, charter schools and their students were required to participate in annual state assessments.<sup>69</sup> Third, the law said that charter school teachers who did not meet public school certification requirements must possess certain basic qualifications: they must have a bachelor's degree, they must have worked for five years in a field that required them to use their education, and they must have passed Illinois's basic skills and subject matter test.<sup>70</sup>

According to the original statute, charter schools could only be proposed by nonsectarian, nonprofit corporations, and no more than 45 charter schools could operate in Illinois – 15 in Chicago, 15 in the Collar Counties, and 15 in the remainder of the state.<sup>71</sup>

Local school district boards were required to evaluate proposed charters based on specific criteria outlined in the Charter Schools Law.<sup>72</sup> If a charter were granted by a district board, the Illinois State Board of Education (ISBE) then had to certify that the proposal complied with state law before the charter would be valid.<sup>73</sup> Once certified, the charter school was to operate for at least three years but no more than five years before undergoing a renewal process.<sup>74</sup> The Charter Schools Law required that certain information must be contained in a charter school proposal. In addition to the charter school's name, location, and mission statement, a charter school's proposal had to describe the school's grade range, focus areas, and the minimum and maximum number of students to be enrolled, as well as student performance standards and student evaluation methods. The proposal also had to describe the relationship between the charter school and the school district, and it had to contain evidence that the charter would be "economically sound for both the charter school and the school district."<sup>75</sup>

The law also enumerated criteria that school districts should use in evaluating proposals. The statute directed local school districts to give preference to proposals demonstrating a high degree of community support. If the proposal were for the conversion of an existing school into a

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<sup>67</sup> *Illinois School Code*, 105 ILCS 5/27A-5 as adopted in Public Act 89-450. Illinois charter schools were also expressly protected by the Tort Immunity Act.

<sup>68</sup> *Illinois School Code*, 105 ILCS 5/27A-4 as adopted in Public Act 89-450.

<sup>69</sup> *Illinois School Code*, 105 ILCS 5/27A-6(b) and 27A-10 as adopted in Public Act 89-450. The statute also mandated that ISBE compile an annual report that included performance data. Those reports can be accessed at [www.isbe.state.il.us/charter/](http://www.isbe.state.il.us/charter/). See ISBE, *Illinois Charter School Annual Report* (January 2006), 1.

<sup>70</sup> *Illinois School Code*, 105 ILCS 5/27A-10 as adopted in Public Act 89-450.

<sup>71</sup> *Illinois School Code*, 105 ILCS 5/27A-4 and 27A-5 as adopted in Public Act 89-450.

<sup>72</sup> *Illinois School Code*, 105 ILCS 5/27A-8(a) as adopted in Public Act 89-450.

<sup>73</sup> *Illinois School Code*, 105 ILCS 5/27A-8(f) as adopted in Public Act 89-450.

<sup>74</sup> *Illinois School Code*, 105 ILCS 5/27A-9 as adopted in Public Act 89-450.

<sup>75</sup> *Illinois School Code*, 105 ILCS 5/27 A-8 and A-9 as adopted in Public Act 89-450.

charter school, community support was to be demonstrated by a petition from the school's teachers, and this petition had to be included in the proposal. In all other cases, sufficient support for the charter school existed if the proposal indicated that all available seats in the charter school would be filled. The statute also directed that school boards should give preference to proposals providing feasible plans for attaining high levels of student achievement, and to proposals that would serve a high percentage of at-risk students.

Illinois's original charter school legislation envisioned local school districts as the primary revenue source for charter schools. Districts were to provide both funding and services for charter schools, and the law specified that finances would neither be an incentive nor a disincentive for the formation of a charter school.<sup>76</sup> The charter contract would specify the amount of funding that the local school district would provide to the charter school, but a charter school's per student funding had to be between 95% and 105% of the district's per capita tuition.<sup>77</sup> Any facilities or services provided by the local school district would be negotiated between the district and the charter school, but districts could not charge charter schools more than the district's cost for the service or facility provided.<sup>78</sup> The local school district was also required to provide a charter school with federal and state funds commensurate with the number of charter school students for whom the funds were intended.<sup>79</sup>

Additional charter school revenue could come from state grants and private donations, including corporate donations, though the legislation's sponsors did not envision charter schools actively soliciting corporate donations.<sup>80</sup> Charter schools could accept private donations so long as the schools were not required to comply with any condition that would require them to violate the law.<sup>81</sup>

House of Representatives and Senate debates over the Charter Schools Law indicate that legislators originally intended for the local community to control the process of establishing and operating charter schools. ISBE was to be responsible for providing oversight. Senator O'Malley said that the "local school board members . . . [are] going to be the gatekeepers. And if they fail somehow to do their job right, then you've got the State Board of Education."<sup>82</sup> According to transcripts of the legislative debates, legislators saw the local control of charter schools as integrally related to the mechanism for charter school funding provided in the law. Senator O'Malley argued that the charter schools did not represent an unfunded state mandate because the local school board would decide whether or not to establish the charter school.<sup>83</sup>

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<sup>76</sup> *Illinois School Code*, 105 ILCS 5/27A-11(b) as adopted in Public Act 89-450. See also State of Illinois, 89<sup>th</sup> General Assembly, House of Representatives Debate Transcript (May 12, 1995), 144.

<sup>77</sup> *Illinois School Code*, 105 ILCS 5/27A-11(b) as adopted in Public Act 89-450.

<sup>78</sup> *Illinois School Code*, 105 ILCS 5/27A-5(i) as adopted in Public Act 89-450.

<sup>79</sup> *Illinois School Code*, 105 ILCS 5/27A-11(c) as adopted in Public Act 89-450.

<sup>80</sup> State of Illinois, 89<sup>th</sup> General Assembly, House of Representatives Debate Transcript (May 12, 1995), b142-143. In response to Representative Coy Pugh, who asked how charter schools would go about soliciting corporate donations, Representative Mary Lou Cowlishaw said: "[T]here are corporations out there . . . that feel an obligation . . . to help us to improve our schools. Some of those people . . . have already stepped forward and done significant things that cost them money, to try to make schools better for the children throughout this state. So, I don't think . . . that anybody is going to go out and solicit that kind of cooperation. I think it is there, waiting to happen."

<sup>81</sup> *Illinois School Code*, 105 ILCS 5/27A-11(d) as adopted in Public Act 89-450.

<sup>82</sup> State of Illinois, 89<sup>th</sup> General Assembly, Regular Session, Senate Transcript (February 9, 1995), 65.

<sup>83</sup> *Ibid.*, 64.



Likewise in the House, Representative Cowlshaw insisted that a charter school would not have a negative financial impact on a local school district because charter school financing would be negotiated by the district and those proposing a charter school.<sup>84</sup>

### ***Amendments to the Charter Schools Law***

Since 1996, the Charter Schools Law has been amended 13 times.<sup>85</sup> Five of these amendments have substantially altered the statutes governing charter schools.

The first such amendment was adopted in December 1997 as part of the “Act to Create a Fair and Equitable Funding Formula for Schools” (PA 90-548), a far-reaching reform bill that changed state education funding formulas, allocated over \$1 billion for school construction, and mandated stricter school accountability standards. This bill modified the stated purpose of charter schools and changed how charter schools were created and financed.

PA 90-548 altered the stated purpose of the Charter Schools Law in two respects: by striking the word “innovative” from sections discussing the encouragement of alternative teaching and student evaluation methods, and by rewording the legislative declaration to say that providing learning opportunities for all students is as important as providing learning opportunities for “at-risk” students.<sup>86</sup> The evaluation criteria for charter proposals were amended to clarify that the law did not restrict the establishment of charter schools to situations where the student population would be substantially composed of “at-risk” students.<sup>87</sup>

The amendment’s most important change was the introduction of provisions specifying that: 1) if a local school district rejected a charter, the district was required to report its decision to ISBE, and 2) ISBE was authorized to overrule the local school board.<sup>88</sup> In the event that it overruled a school board, ISBE would become the charter school’s chartering entity. The State Board would then be responsible for notifying the school district each year of the number of district students that would attend the charter school, and the State Board would withhold the funds due to the charter school from “funds otherwise due the district.” ISBE would then disburse these funds directly to the charter school.<sup>89</sup>

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<sup>84</sup> State of Illinois, 89<sup>th</sup> General Assembly, House of Representatives Debate Transcript, (February 27, 1996) 10 and 16.

<sup>85</sup> See Public Act 90-548; Public Act 90-757; Public Act 91-096; Public Act 91-405; Public Act 91-407; Public Act 92-016; Public Act 93-003; Public Act 93-021; Public Act 93-861; Public Act 93-909; Public Act 94-219 and Public Act 96-105.

<sup>86</sup> *Illinois School Code*, 105 ILCS 5/27A-2(b)(2) as amended in Public Act 90-548.

<sup>87</sup> *Illinois School Code*, 105 ILCS 5/27A-8(a)(3) as amended in Public Act 89-450.

<sup>88</sup> *Illinois School Code*, 105 ILCS 5/27A-9 as amended in Public Act 90-548. The First District Appellate Court of Illinois affirmed ISBE’s authority to overturn a local school board’s decision to reject a charter. On November 9, 2000, the court filed an opinion in *Board of Education of Community Consolidated School District No. 59 v. Illinois State Board of Education*, saying that ISBE was invested with the statutory authority to overrule school districts, and that ISBE’s determination that a charter proposal was sound could only be reversed if the court were “left with the definite and firm conviction that a mistake has been committed.” State of Illinois Supreme Court website, <http://www.state.il.us/COURT/Opinions/AppellateCourt/2000/1stDistrict/November/Html/1983709.htm>.

<sup>89</sup> *Ibid*.

Other criteria governing the submission and evaluation of charter school proposals were also changed, effectively limiting the power of local school boards to reject a charter. New language stated that the Charter Schools Law was not intended to justify denying a charter to schools that could not acquire a facility before submitting a proposal, or to schools unable to guarantee they would meet contractually specified goals.<sup>90</sup> For proposals seeking to convert an existing school into a charter school, evaluation criteria were modified to allow for evidence of community support other than a petition signed by the existing school's teachers and parents. PA 90-548 also stipulated that, once a local school district had granted a charter, its ability to revoke that charter was limited to situations where the district could clearly demonstrate a school's failure to meet its legal obligations.

Finally, two significant changes were made to the Charter Schools Law's funding provisions. First, the range of funding that a local school district must provide to charter schools was broadened, so that charter schools could now receive between 75% and 125% of the district's per capita tuition multiplied by the number of charter school students.<sup>91</sup> Second, ISBE was instructed to establish a revolving loan fund to provide loans that would defray charter schools' start-up expenses.<sup>92</sup>

The next important round of amendments to the Charter Schools Law came in 1999 with the adoption of PA 91-405 and PA 91-407. PA 91-405 authorized a board of education or an intergovernmental agreement between boards of education to submit a charter school proposal, where before only private organizations had been permitted to propose and operate a charter school.<sup>93</sup>

PA 91-407's changes to the Charter School Law were far more substantial. This act modified nearly every section of the original law and added two new sections, one providing for state financial aid to districts in which a charter school was established, and another allowing for the creation of charter schools by referendum.

The creation of Transition Impact Aid (TIA) was the most important of these changes.<sup>94</sup> TIA was designed to lessen the financial effect of diverting funds from local school districts to charter schools.<sup>95</sup> The TIA provisions in PA 91-407 stipulated that ISBE would receive an appropriation to reimburse local school districts for a percentage of the money used to fund charter schools. TIA funding was to equal 90% of the district money provided to the charter school in its first year of operation, 65% of the money provided in the school's second year, and 35% of district funds provided to the charter school in its third year. The district would not receive any TIA

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<sup>90</sup> *Illinois School Code*, 105 ILCS 5/27A-7 and 105 ILCS 5/27A-8 as amended in Public Act 89-450.

<sup>91</sup> *Illinois School Code*, 105 ILCS 5/27A-11(b) as amended in Public Act 89-450.

<sup>92</sup> *Illinois School Code*, 105 ILCS 5/27A-11(d)(2) as amended in Public Act 89-450.

<sup>93</sup> See State of Illinois, 91<sup>st</sup> General Assembly, House of Representatives Debate Transcript (March 9, 1999), 124. To preclude entire districts from seeking to become charter schools and thereby circumvent state education laws, a provision specified that only one charter school per district could be operated by a local school board. Venice School District 3 was the only school district that operated its own charter school. ISBE, *Illinois Charter School Annual Report* (January 2006), 4. The school closed in 2007. ISBE, *Illinois Charter School Annual Report* (January 2008), 3.

<sup>94</sup> *Illinois School Code*, 105 ILCS 5-27A-11.5(1) as created by Public Act 91-407.

<sup>95</sup> State of Illinois, 91<sup>st</sup> General Assembly, House of Representatives Debate Transcript (March 9, 1999), 32.

funding in the charter school's fourth year. If the charter school were established by a local school board rather than a private, nonprofit entity, the district was not entitled to receive TIA.

PA 91-407 gave ISBE more flexibility to consider charter proposals rejected by local school boards. It authorized ISBE to make its reversal of the school board decision contingent upon the charter school's agreement to accept less funding than called for in the charter document.<sup>96</sup> It also replaced ISBE's revolving loan fund with a special State Treasury fund called "The Charter Schools Revolving Loan Fund."<sup>97</sup> ISBE would use this money to provide no-interest loans not exceeding \$250 per student for charter schools' start-up costs. The loans had to be repaid before the first term of the charter expired. The money in this fund was to come from federal funds and the payments that charter schools were making on loans they had already received. ISBE could use up to three percent of the available funds to pay for another entity to administer the funds.<sup>98</sup>

This act contained several provisions modifying the business relationship between school districts and charter schools. Amendments contained in the act:

- extended the period of time for which schools were to be chartered from three-to-five years to five-to-ten years;
- authorized local school districts to charge rent if charter schools used school district buildings;
- authorized charter schools to collect student fees; and
- specified that every charter must contain instructions for resolving minor violations of a charter's terms.<sup>99</sup>

This act also deleted several provisions in the law: the requirement that no more than 50% of a local school district's students in any grade level could attend a charter school, and the section requiring ISBE to provide the General Assembly and Governor with a report on charter schools.

Prior to the enactment of PA 91-407, charter schools were not required to assess their own performance in the School Report Card format used by all other Illinois public schools because that section of the School Code was not specified as a law to which charter schools were subject. PA 91-407 made this requirement one of the laws charter schools must follow.<sup>100</sup> Similarly, this law required ISBE to evaluate charter school students' academic achievement, and the extent to which charter schools had accomplished their mission.

Finally, PA 91-407 established an entirely new mechanism for creating charter schools. A new section was added to the Charter Schools Law providing that a charter school proposal certified by ISBE must be placed on the ballot if five percent of registered voters petitioned the local school board to do so.<sup>101</sup> If the referendum were approved by a majority of voters, ISBE would

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<sup>96</sup> *Illinois School Code*, 105 ILCS 5-27A-9(e) as amended by Public Act 91-407.

<sup>97</sup> *Illinois School Code*, 105 ILCS 5-27A-11.5(3) as created by Public Act 91-407.

<sup>98</sup> *Illinois School Code*, 105 ILCS 5-27A-11.5(2) as created by Public Act 91-407.

<sup>99</sup> *Illinois School Code*, 105 ILCS 5/27A-9(a), 105 ILCS 5/27A-5(h), 105 ILCS 5-27A-9(b), 105 ILCS 5-27A-6(c-5) as created by Public Act 91-407.

<sup>100</sup> *Illinois School Code*, 105 ILCS 5/27A-5(g) as amended by Public Act 91-407.

<sup>101</sup> *Illinois School Code*, 105 ILCS 5-27A-6.5 as created by Public Act 91-407.

become the school's chartering entity.<sup>102</sup> A charter school approved by referendum would therefore receive its funding from ISBE, and ISBE would withhold the appropriate amount of funding from state funds otherwise due to the district. For a charter school approved by referendum, the local school board would have no role in evaluating the charter school proposal, and the charter school would be exempted from having to reach an agreement on funding with the school board.<sup>103</sup>

In the House of Representatives, debate over this series of amendments focused on the fiscal impact of the Charter School Revolving Loan Fund. Members of the House were assured that the \$10 million appropriated to fund the start-up loans would not diminish the amount of money available in the Common Schools Fund for providing schools with general state aid.<sup>104</sup> During the course of debate in the Senate, Senator Cronin described the significance of TIA. He explained that while charter schools flourished Chicago, they had not done so in suburban Cook County or the rest of Illinois because local school boards prevented their formation. Charter schools, he said, were viewed as a threat to the amount of state funding available to the local school district.<sup>105</sup> The legislation was intended to provide limited compensation to local school districts in order to diminish a charter school's financial impact. Senate debates also remarked on the importance of limiting TIA funding. Since introducing competition into the distribution of public education funding was part of the rationale for charter schools, TIA funding had to be limited in order to preserve the competitive element introduced by charter schools.<sup>106</sup>

The third set of substantive changes to the Charter Schools Law was made in 2003. Public Act 93-003 created significant differences between charter schools in Chicago and those in the rest of Illinois. The number of charter schools allowed in Chicago was doubled from 15 to 30, while the maximum allowed in other regions of Illinois remained the same.<sup>107</sup> At the same time, all Chicago charter schools were required to administer the same standardized tests as the Chicago Public Schools (CPS), and those test results were to be included in CPS's assessment reports.<sup>108</sup>

This statute also affected labor and management issues in Chicago's charter schools. It stated that CPS had no duty to include charter schools in any of its collective bargaining agreements.<sup>109</sup> PA 93-003 also restricted new charter schools in Chicago to operating on a single campus, and said that Chicago's new charter schools could not contract with a for-profit entity to manage or operate the school.<sup>110</sup> Finally, while the rest of Illinois's charter school teachers continued to be subject to the original Charter Schools Law certification requirements, new certification guidelines were applied to teachers in Chicago charter schools.<sup>111</sup> Seventy-five percent of teachers in any Chicago charter school established prior to the 2006-2007 school year were required to hold the same teaching certificates as all other public school teachers. In charter

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<sup>102</sup> *Illinois School Code*, 105 ILCS 5-27A-9(f) as amended by Public Act 91-407.

<sup>103</sup> *Illinois School Code*, 105 ILCS 5-27A-8 and 105 ILCS 5-27A-11(b) as amended by Public Act 91-407.

<sup>104</sup> State of Illinois, 91<sup>st</sup> General Assembly, House of Representatives Debate Transcript (May 12, 1999), 31.

<sup>105</sup> State of Illinois, 91<sup>st</sup> General Assembly, Regular Session, Senate Transcript (May 27, 1999), 68.

<sup>106</sup> *Ibid.*, 68.

<sup>107</sup> *Illinois School Code*, 105 ILCS 5/27A-4(b) as amended by Public Act 93-3.

<sup>108</sup> *Illinois School Code*, 105 ILCS 5/27A-6(b) as amended by Public Act 93-3.

<sup>109</sup> *Illinois School Code*, 105 ILCS 5/27A-4(j) as created by Public Act 93-3.

<sup>110</sup> *Illinois School Code*, 105 ILCS 5/27A-5(b) and 105 ILCS 5/27A-5(h) as amended by Public Act 93-3.

<sup>111</sup> *Illinois School Code*, 105 ILCS 5/27A-10(c) as amended by Public Act 93-3.

schools established after 2006-2007, fifty percent of teachers were required to have the certificate.

The most recent significant change to the Illinois charter school law was the Charter School Reform Act of 2009, PA 96-105. The Act was approved by House of Representatives without opposition and the Senate by a vote of 45-10 and then signed into law by Governor Quinn.

PA 96-105 raised the cap on the total number of charter schools in Illinois from 60 to 120. It allows for up to 45 charter schools downstate, an increase of 15. As many as 70 charter schools are permitted in Chicago. In addition to the new charter schools, Chicago is permitted to establish up to 5 charter schools devoted to re-enrolled high school dropouts; thus the total number of new charter schools allowed in Chicago is 45. Each of the dropout charter schools may have a maximum of 1,875 enrollments and any one charter school campus may have a maximum of 165 enrollment seats. Each dropout charter school may operate up to 15 campuses within the city.

Charter schools formed before 2003 are required by PA 96-105 to have 75% of their teachers certified by the state by the 2012-13 school year. At least 75% of the teachers must hold teaching certificates by the beginning of the fourth school year during which students are enrolled in charter schools established after PA 96-105 takes effect on July 30, 2009.<sup>112</sup>

The 2009 law provides for the State Board of Education to convene an Independent Charter School Authorizer Task Force. The Task Force is charged with reviewing the charter school authorization procedures across the U.S., analyzing the capacity of school districts in Illinois to authorize charter schools, examining the interest and ability of the state's universities to act as charter school authorizers and making recommendations to the State Board regarding the possibility or need for an independent authorizing body for charter schools. The task force will report its findings to Illinois General Assembly by January 1, 2010.<sup>113</sup>

The Charter School Reform Act of 2009 also mandates each charter school to annually submit a copy of its audit and Form 990 filing to the State Board of Education.<sup>114</sup>

### ***Minor Amendments to the Charter School Law***

The following table summarizes all other minor amendments made to Illinois's original Charter Schools Law.

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<sup>112</sup> *Illinois School Code*, 105 ILCS 5/27A-10(c-10) as amended by Public Act 96-105.

<sup>113</sup> *Illinois School Code*, 105 ILCS 5/27A-14(b) as amended by Public Act 96-105.

<sup>114</sup> *Illinois School Code*, 105 ILCS 5/27A-4(f) as amended by Public Act 96-105.

| Illinois Charter School Law: Minor Amendments to Charter School Law |      |  |
|---|------|--|
| Public Act  | Year | Amendment Summary  |
| 90-757  | 1998 | Released local school boards from the responsibility for repaying failed charter schools' start-up loans.  |
| 91-096  | 1999 | Required ISBE to obtain the attendance records necessary for allocating general state financial aid from the schools it chartered directly, and released ISBE from responsibility for obtaining other information from these schools, regardless of reporting requirements in the general state financial aid law. |
| 92-016  | 2001 | Made technical changes to the language of the law and was included as part of the First 2001 General Revisory Act.   |
| 93-021  | 2003 | Limited the payment of TIA for the 2004 fiscal year. Districts hosting schools chartered prior to June 1, 2003 would be paid first, and the remaining funds would be distributed to districts hosting schools chartered thereafter on a pro rata basis.  |
| 93-861  | 2004 | Authorized Chicago's Board of Education to designate attendance boundaries for up to one third of Chicago charter schools. Students living within a school's boundaries would receive admissions preference.   |
| 93-909  | 2004 | Changed the phrase "criminal background investigation" to "criminal history records check" in the section requiring background checks for charter school teachers.   |
| 94-219  | 2005 | Required charter schools to search the Statewide Sex Offender Database for the names of charter school teacher applicants.   |

Source: Illinois General Assembly website, [www.ilga.gov](http://www.ilga.gov)

### ***Major Case Law on Charter Schools***

The connection between school finance and the authority to charter schools in Illinois is contested ground. On September 22, 2005, the Illinois State Supreme Court filed its ruling in *Comprehensive Community Solutions, Inc. (CCS) v. Rockford School District No. 205*.<sup>115</sup> CCS was seeking to overturn ISBE's support for Rockford District 50's rejection of the company's charter proposal. In turning down the CCS proposal, Rockford cited Illinois School Code section 27A-7(a)(9), which required that the charter proposal be economically sound for both the charter school and the host district.<sup>116</sup> Rockford found that the charter school's own financial projections were unsound, and that hosting a charter school would have been harmful to the finances of the District, which was running a deficit at the time. CCS argued that, "It's well known that most of the districts in the state of Illinois are operating at a deficit. This would give districts a blanket veto."<sup>117</sup>

<sup>115</sup> *Comprehensive Community Solutions, Inc. v. Rockford School District No. 205*, Illinois State Supreme Court, <http://www.state.il.us/COURT/Opinions/SupremeCourt/2005/September/Opinions/Html/99332.htm>.

<sup>116</sup> Ibid.

<sup>117</sup> Stephanie Banchemo and Erika Slife, "Money is key to charter school fight," *Chicago Tribune*, May 19, 2005.

ISBE, however, concurred with Rockford's findings, and ISBE's decision was affirmed by both the Circuit Court of Sangamon County and the Fourth District Appellate Court of Illinois. The Fourth District Court's ruling, written by Judge Robert Eggers, cited an earlier case against ISBE in which Community Consolidated School District 59 had challenged ISBE's decision to authorize Thomas Jefferson Charter School over the District's objection. In the opinion deciding the District 59 case, the First District Appellate Court of Illinois had affirmed ISBE's authority to overturn a local school board's decision to reject a charter, saying that ISBE was invested with the statutory authority to overrule school districts, and that ISBE's determination that a charter proposal was sound could only be reversed if the court were "left with the definite and firm conviction that a mistake has been committed."<sup>118</sup> The ruling in the District 59 case established the precedent that ISBE's ruling must be "clearly erroneous" in order for the courts to have grounds to overturn it.

In *CCS v. Rockford 205*, the Supreme Court ruled in favor of ISBE, affirming the Sangamon County Circuit Court's and Fourth District Appellate Court's rulings. The Supreme Court's decision, written by Justice Thomas Fitzgerald, said that the Court could only overturn ISBE's ruling if that ruling were "clearly erroneous," citing the standard set by the ruling in the District 59 case. Justice Fitzgerald also said that the financial impact of the charter school on the district was a valid concern. The Supreme Court's ruling suggests that future disputes between chartering entities and the local or State Board of Education will continue to be resolved on a case by case basis. Justice Fitzgerald wrote that "economic soundness ... is not a bright line standard, but a continuum," and that the State Supreme Court does "not hold that any school district experiencing a budget deficit may deny a charter school proposal with impunity."<sup>119</sup>

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<sup>118</sup> The opinion in this case was filed on November 9, 2000. *Comprehensive Community Solutions, Inc. v. Rockford School District No. 205*, 216 Ill 2d 455 (2005) See also <http://www.state.il.us/COURT/Opinions/AppellateCourt/2000/1stDistrict/November/Html/1983709.htm>.

<sup>119</sup> *Comprehensive Community Solutions v. Rockford 205*.

## Chapter Three

### CHARTER SCHOOLS IN CHICAGO

Charter schools first opened in Chicago in the fall of 1997. Today, they are part of a broader effort by CPS to establish a variety of non-traditional or “new” schools that employ innovative educational strategies and techniques.

There are four types of new schools in Chicago: charter schools, contract schools, performance schools and professional development schools.<sup>120</sup> In the 2008- 2009 school year, there were a total of 80 new schools on 126 campuses.<sup>121</sup>

- **Charter schools** are independently operated public schools that are not subject to the same state laws, district initiatives, and board policies as traditional public schools. Charters are operated pursuant to the Illinois Charter Schools Law. Charter school teachers are employees of the non-profit governing board or education management organization hired by the non-profit board. In 2008, there were 30 charter schools operating on 68 campuses.
- **Contract schools** are independently operated public schools. They operate pursuant to the Illinois School Code, are managed by an independent non-profit organization and employ teachers who work for that organization. Contract schools have an advisory body comprised of parents, community members and staff.
- **Performance schools** are operated by CPS and employ CPS teachers and staff. These schools are subject to the collective bargaining agreement between CPS and the Chicago Teachers Union and other labor organizations. However, they have flexibility on many areas such as curriculum, school schedule and budget.
- **Professional Development Schools** are traditional public schools that also provide teacher training programs.<sup>122</sup>

#### Renaissance 2010 Schools

In June 2004, Mayor Daley and the Chicago Public Schools launched an initiative to reform or recreate 100 Chicago schools. Of that amount, one-third would be established as charter schools, one-third as independent contract schools and one-third as small schools operated by the Chicago school district. The effort was dubbed “Renaissance 2010.”

The new Renaissance 2010 schools would replace existing underperforming schools and would have operational autonomy. This would allow them to experiment with non-traditional techniques such as longer academic years, performance-based salaries for educators, different

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<sup>120</sup> The following description of the type of Renaissance 2010 schools is from the Chicago Public Schools Renaissance 2010 website at <http://www.ren2010.cps.k12.il.us/types.shtml>. Unfortunately the Renaissance 2010 website is no longer active. However, the information provided from the web site was accurate at the time this report was written. Information provided by CPS, April 15, 2011.

<sup>121</sup> Information provided by CPS, April 15, 2011.

<sup>122</sup> Information provide by Office of New Schools, September 25, 2009.



student evaluation models. and specialized academic programs. The new schools would be held accountable via a 5-year performance contract.<sup>123</sup> In 2005, CPS opened the first "cohort" of Renaissance 2010 schools.<sup>124</sup>

The Civic Committee of the Commercial Club, an organization of top Chicago area corporate leaders, played a key role in promoting and developing the idea of the 100 new schools.<sup>125</sup> After the Renaissance 2010 program was launched, the Civic Committee was instrumental in establishing an independent non-profit corporation, the Renaissance Schools Fund, to provide assistance to CPS in fundraising, strategy and accountability efforts for the Renaissance 2010 effort.<sup>126</sup>

The Renaissance Schools Fund helps provide financial resources to new Renaissance 2010 schools during a school's start-up phase and initial years of operation. After two years of operation, CPS assumes funding responsibilities.

The cost of initial support for a new Renaissance 2010 school varies depending on size, demographics and the grade levels established. However, the Renaissance Schools Fund reports that funding requirements can be reasonably pegged at up to \$500,000. To date the Renaissance Schools Fund has provided over \$70 million to support the new schools effort.<sup>127</sup>

Some of the new schools in Chicago are part of the Renaissance 2010 effort. In 2008, there were 73 Renaissance 2010 schools administered by the CPS Office of New Schools.

All Renaissance 2010 schools are new schools. However, those charter, contract, performance and professional development schools established before the inception of Renaissance 2010 are not part of that program.

### **Chicago Charter Schools**

Chicago charter schools are independent schools that are not subject to the same legal requirements or school board policies as other local schools. Charter school teachers are employees of the individual charter school governing board or education management organization hired by the charter school board that operates the school on a day to day basis. The exhibit that follows summarizes CPS charter school requirements, responsibilities, governance and nonprofit status.

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<sup>123</sup> [www.newschooolschicago.org/About.html](http://www.newschooolschicago.org/About.html).

<sup>124</sup> [www.ren2010.cps.k12.il.us/](http://www.ren2010.cps.k12.il.us/).

<sup>125</sup> Tracey Dell'Angela and Gary Washburn. "Daley set to remake troubled schools: Shut them down, start over, he says," *Chicago Tribune*, June 25, 2004.

<sup>126</sup> See Don Lubin. "Businesses back public school reform." *Chicago Tribune*, December 6, 2004, and [www.newschooolschicago.org/](http://www.newschooolschicago.org/).

<sup>127</sup> [www.civiccommittee.org/initiatives/education/index.html](http://www.civiccommittee.org/initiatives/education/index.html).

| <b>Charter School Requirements in Chicago School District</b> |   |
|---|---|
| Curriculum  | Meets state learning standards as specified in Charter School Agreement; may opt to participate in CPS initiatives  |
| School Calendar and Schedule                                  | Must meet state minimums  |
| School Funding  | Per pupil   |
| Teacher Certification   | Charter schools formed before 2003 are required to have 75% of their teachers certified by the state by the 2012-13 school year. In charter schools established after the Charter School Reform Act of 2009 takes effect, at least 75% of the teachers must hold teaching certificates by the beginning of the fourth school year during which students are enrolled at the charter school. |
| CPS Principal Eligibility Required?                           | No  |
| Teacher Pension Fund?   | Certified teachers in pension fund. Others covered by Social Security.  |
| Teachers and Staff Employed by:                               | Charter school board or sub-contracted management organization  |
| Teachers Union  | School may opt to unionize, but may not join the CTU  |
| Employee Compensation   | Determined by school  |
| No Child Left Behind Compliance                               | Teachers in Title I schools are required to meet standards  |
| Governance  | Governing Board   |
| Incorporated as a Non-Profit in Illinois                      | Required  |
| Filed Federal 501(c)3 status                                  | Required  |

***Chicago Charter School Statistics: 2007-2008***

During the 2007-2008 school year, there were 30 charter schools on 68 campuses and a total of 22,777 students were enrolled in them. This was 5.6% of all CPS students. Charter schools enrolled a higher percentage of African Americans than the entire Chicago school district – 63.7% versus 46.5%. Proportionately fewer Hispanics and whites attended charter schools than all Chicago schools. While CPS and charter school enrollment is overwhelmingly composed of low income students, a smaller percentage of charter school students were low income (73.7%) compared to district wide enrollment (82.7%).

| <b>Charter School Enrollment 2007-2008</b> |                        |                  |
|--|------------------------|------------------|
|  | <b>Charter Schools</b> | <b>Total CPS</b> |
| <b>2007-2008 Enrollment</b>                | 22,777                 | 408,601          |
| <b>Student Ethnicity</b>                   |                        |                  |
| African American                           | 63.7%                  | 46.5%            |
| Hispanic                                   | 30.4%                  | 39.1%            |
| White                                      | 3.0%                   | 8.0%             |
| Asian/Pacific Islander                     | 1.2%                   | 3.3%             |
| Other                                      | 1.8%                   | 3.1%             |
| <b>Other Demographics</b>                  |                        |                  |
| Low Income                                 | 73.7%                  | 82.7%            |
| Limited English Proficiency                | 5.2%                   | 15.1             |
| Special Education                          | 10.5%                  | 12.2             |
| % of Students from Neighborhood            | 60.0%                  | N/A              |

**Source:** Office of New Schools, Chicago Public Schools. Charter Schools Performance Report 2007-2008, p. 5.

### ***Chicago Charter School Development Process***

The Chicago Public Schools Office of New Schools is charged with recruiting, selecting and supporting qualified charter school operators to run charter schools. The process by which charter schools are developed is described in the following sections. The accountability process described here applies as well to contract schools.<sup>128</sup>

#### The Application Process

CPS issues a Request for Proposals (RFP) for charter schools (and other Renaissance 2010 schools) when appropriate. Design teams composed of local educators, parents, community organizations, universities, businesses and foundations are invited to submit charter school proposals. CPS then conducts a review process with community input, and makes recommendations to the Chicago Board of Education regarding which organizations should be authorized to move forward and create a charter school. RFPs are issued annually for schools proposing to open the fall of the following year.<sup>129</sup>

CPS offers two different application processes for potential charter school operators: open and network requests for proposals. The open RFP process is for all applicants who want to open their first school and the network RFP process is for applicants who already operate schools in Chicago or another school district. The application process for both methods proceeds in two phases: 1) develop a design framework and then 2) develop a full proposal.<sup>130</sup>

<sup>128</sup> Information provided by CPS, April 15, 2011.

<sup>129</sup> <http://www.ren2010.cps.k12.il.us/faq.shtml>. Unfortunately the Renaissance 2010 website is no longer active. However, the information provided from the web site was accurate at the time this report was written. Information provided by CPS, April 15, 2011.

<sup>130</sup> The discussion regarding the application and approval process for charter schools in Chicago is drawn from Chicago Public Schools. *Request for Proposals for Schools Opening Fall 2010 & 2011 Issued May 2009*.

Community input is an important component of the charter school development and approval process. The selection process requires that charter school design teams actively solicit community involvement in their process. This includes participation in multiple community forums and public hearings as well as working with Transition Advisory Councils (TAC). TACs are formed for the CPS facilities identified as possible school sites. Their membership is composed of volunteers who represent the local community, including parents, aldermen, representatives of faith-based communities, community residents, business owners, educators and students. They act as liaisons between CPS and their communities to ensure that the potential charter school applicants offer appropriate and quality educational options for their communities. They make recommendations to the CPS CEO during the process regarding the proposed new charter schools. The TAC recommendations are considered by the CPS CEO along with recommendations from the Office of New Schools and the comprehensive evaluation teams in making decisions on which charter school applications will be submitted to the Board for their approval.

A brief overview of the charter school application process follows.

#### The Design Framework Process

1. All applicants must submit a design framework that lays out the core elements of the new charter school design.
2. CPS holds public hearings for all design frameworks in accordance with the provisions of the Illinois Charter School Law. These hearings are intended to obtain broad public input at the beginning of the process.
3. The charter school applicants are then interviewed by a comprehensive evaluation team (CET) of experts selected by CPS on their design framework. This panel provides preliminary feedback to the design teams.
4. The design teams give a presentation on their charter school design and take audience questions at design framework community forums which are designed to notify and inform community members of new charter school proposals for their areas.
5. CPS reviews the design frameworks and approves or rejects them. Those design teams which receive approval are invited to develop and submit full proposals.

#### Full Proposal Process

- All applicants submitting full proposals are interviewed by a CET. Each CET is composed of content experts from CPS and outside the District. They provide advisory feedback on the proposal. The Office of New Schools presents the CET recommendations to the CPS Chief Executive Officer, who then presents recommendations to the CPS Board of Trustees. The Board is charged with making a final decision.

- Design teams are encouraged to present a candidate for principal of their proposed charter school at the time they submit a proposal. Candidates must participate in an interview process that includes local and national experts. If no candidate has been identified at the time the proposal has been submitted, one must be identified within a two month period and then interviewed.
- In accordance with the Illinois Charter School Law, CPS must conduct a public hearing on all full charter school proposals to obtain public commentary.
- Next, design teams are informed of full proposal CET recommendations.
- The next step involves full proposal community forums. All applicants who win approval to move forward must participate in a public forum in the community in which the new charter school will be located.
- After the community forum, recommendations regarding which charter schools proposals should be accepted are presented to the Chicago Public Schools CEO from the Transition Advisory Councils, the Office of New Schools and the CET interviewers.
- Public hearings on those recommended schools are then held to allow citizens to enter comments into the official record.
- Finally, the CPS Board of Education makes the final decision on which schools to accept.

After approval, CPS works with design teams to receive final certification from the Illinois Board of Education. ONS, in conjunction with CPS Law Department, also negotiates contracts and agreements with the new charter schools outlining the rights and responsibilities of both parties. These agreements govern the official relationship between CPS and the new schools.

### ***Incubation and Accountability***

After approval, all schools enter into an incubation phase of new school development during which they receive some support from the District.<sup>131</sup> The purpose of incubation is “to provide guidance, support, resources, professional development and training” to school leaders. Incubation meetings focus on items such as special education training, compliance guidance, budgeting and facilities. Incubation ends the fall after a school opens.

Charter schools must fulfill certain federal, state and CPS requirements in relation to safety, student attendance, financial information and school performance data. Compliance and performance are monitored by an accountability team that works with each charter school. Specific evaluations required include an annual charter school performance report and charter renewal evaluations.

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<sup>131</sup> CPS used to have an incubation team that provided professional support to charter schools. This has been discontinued, but some training and support are still provided.. Information provided by CPS on April 15, 2011.

## Annual Performance Reports

The Office of New Schools publishes an annual performance report for charter schools that permits each charter school to compare and evaluate its achievement level data with respect to standards set forth in the school's Accountability Plan. It is important to note that different charter schools are on different accountability plans depending on when they were opened. CPS is moving towards a policy of holding schools accountable to the district's performance policy as they are opened, renewed or apply for material modifications. For high schools, CPS looks not only at transfer out rate, but also drop-out rates.<sup>132</sup> ONS also permits the Board of Education to monitor the school's annual performance. Data reported in the Performance Reports is a key component of the charter renewal process that usually occurs during the fifth year of operation.

Charter schools are measured on three types of indicators.<sup>133</sup>

- **Operational Performance:** The charter school's budget plan, financial practices, compliance and contractual obligations for the current and prior year are reported and evaluated.
- **Absolute Student Performance:** The charter school is assessed on standardized test scores, attendance, graduation, and transfer out scores.
- **Relative Student Performance:** The charter school's performance on indicators is compared to a weighted, aggregate average of the performance of the neighborhood schools that their students would have otherwise attended.

For the categories of operational performance and absolute student performance, the charter school's performance is rated as:

1. High – clearly meets/exceeds expectations;
2. Middle – meets minimum requirements for that indicator; or
3. Low – clearly does not meet expectations.

## Financial Management and Compliance

The three operational performance indicators are all focused on how successfully the charter school has met financial management and compliance criteria established by CPS. A description of the three indicators and the meaning of "high," "middle" and "low" ratings is presented in the table that follows.

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<sup>132</sup> Information provided by CPS, April 5, 2011.

<sup>133</sup> <http://www.ren2010.cps.k12.il.us/existing.shtml#eso7>. Unfortunately the Renaissance 2010 website is no longer active. However, the information provided from the web site was accurate at the time this report was written. Information provided by CPS, April 15, 2011.

| <b>CPS Charter School Operational Performance Indicators</b>   |                                      |  |   |
|--|--------------------------------------|--|---|
| <b>Indicator</b>   | <b>High</b>                          | <b>Middle</b>  | <b>Low</b>  |
| Balanced Budget:<br>1) Prior-year balanced budget successfully implemented<br>2) Realistic current-year balanced budget plan                       | Both budgets balanced                | Current-year budget balanced.<br>Prior-year budget not balanced.                                     | Current-year budget not balanced, even if the prior year budget was balanced  |
| Financial Practices: audited financial statements, internal controls, pension payments, payroll taxes, insurance coverage, loan payments and terms | All in good standing and no findings | Any minor finding or non-payment with realistic plan to make payment; non-compliance with loan terms | Any repeated finding; any major finding; any non-payment without realistic plan to make payment; non-compliance with loan terms |
| Compliance/Contractual Obligations   | No findings                          | Any minor finding(s)   | Any repeated finding; any major finding   |

Source: <http://www.ren2010.cps.k12.il.us/existing.shtml#eso7>.

The accountability plan for each charter school specifies the items that are evaluated and reported as part of the operational performance indicator review. Highlights of the requirements from the Office of New Schools Renaissance 2010 website are presented below:<sup>134</sup>

- 1) The following items are evaluated and reported on as part of the Financial Practices Indicator:
  - a) The charter school's audit report opinion on the school's financial statements;
  - b) The charter school's audit report on compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with Government Auditing Standards; and
  - c) The status of the charter school's payments for pensions, payroll taxes, insurance coverage, and debt service.
  
- 2) The next set of items are tested and reported upon annually by each charter school's independent auditor and evaluated and presented as part of the Compliance Indicator:
  - a) Criminal background investigations (105 ILCS 5/34-18.5)
  - b) Administration of Medication (105 ILCS 5/10-22.21b)
  - c) Hazardous materials training (105 ILCS 5/10-20.17a)
  - d) Fire Drill Act (105 ILCS 120)
  - e) Tornado Protection Program (105 ILCS 5/10-20.23)
  - f) Abused and Neglected Child Reporting Act (325 ILCS 5/1 et. seq.)
  - g) Eye Protection Act (105 ILCS 115/1)
  - h) Toxic Art Supplies in Schools Act (105 ILCS 135/5)
  - i) Infectious Disease Policies and Rules (105 ILCS 5/10-21.11)

<sup>134</sup> <http://www.ren2010.cps.k12.il.us/existing.shtml#eso7>. Unfortunately the Renaissance 2010 website is no longer active. However, the information provided from the web site was accurate at the time this report was written. Information provided by CPS, April 15, 2011.

- 3) The following items are tested and reported upon annually by each charter school's independent auditor and evaluated and presented as part of the Compliance/Contractual Obligations Indicator:
  - a) Open Meetings Act (5 ILCS 120/1.01 et. seq.)
  - b) Student Records Act (105 ILCS 10)
  - c) Conformance with the following paragraphs of charter agreements
    - i) Paragraph 4.j., the school's governance structure
    - ii) Paragraph 6.k., ongoing presence of management and financial controls
    - iii) Paragraph 4.c., an open enrollment process and lottery
    - iv) Paragraph 5.c., maintenance of Corporate Status and Good Standing
- 4) Finally, the Board also considers each charter school's compliance with teacher qualification requirements, according to both the Illinois Charter School Law (Section 27A-10) and the requirements for Highly Qualified teachers under the No Child Left Behind Act if the Charter school receives Title I funding.

### ***Charter Renewal***

Charter schools are evaluated in their fifth year of operation to determine if they have met their performance goals and fulfilled the terms of their accountability plans. The results of the review help the Board of Education determine if the charter contract will be renewed or terminated.<sup>135</sup>

The charter renewal process involves charter school, the Office of New Schools (ONS), external partners, and the Chicago Board of Education. It includes:

- Completion of an application by the charter school that provides evidence that discusses its accomplishments, areas of improvement and future plans
- An evaluation of an analysis of current and historic student performance data.
- A review of the financial and compliance audits by CPS staff in the Office of New Schools to verify that the charter, attendance centers, and campuses complied with the financial requirements in the Illinois Charter School Law and the Chicago Charter School Agreement. As of 2012, the Office of New Schools also will review the Office of Language and Cultural Education's compliance reports.<sup>136</sup>
- An assessment of facility conditions and American with Disabilities Act (ADA) compliance requirements of those facilities.
- Site visits and interviews by a site visit team comprised of staff from the Office of New Schools and their external partner, SchoolWorks. SchoolWorks is a Massachusetts-based

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<sup>135</sup> This information was from the old Chicago Public Schools Renaissance 2010 website at <http://www.ren2010.cps.k12.il.us/existing.shtml#eso9>. Unfortunately the Renaissance 2010 website is no longer active. However, the information provided from the web site was accurate at the time this report was written. Information provided by CPS, April 15, 2011.

<sup>136</sup> Until the 2011-2012 school year, the financial review was conducted by the Illinois Facilities Fund. Information provided by CPS, April 15, 2011.



educational consulting firm that works with school district to evaluate school performance.<sup>137</sup>

- A public hearing on the charter renewal.
- A review of documents by the Comprehensive Evaluation Team (CET).
- The CET then makes a recommendation to CPS Leadership as to whether each charter school should be renewed or revoked in accordance with the Illinois Charter School Law.
- Finally, the Board of Education makes a final decision on renewal or non-renewal of the charter.

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<sup>137</sup> See <http://www.schoolworks.com/services.html>.

## Chapter Four

### CHARTER SCHOOL FINANCE

This chapter provides a brief overview of recent relevant research on charter school finance. It is by no means exhaustive, but intended to present a representative sample of the key issues currently being discussed.

#### **A Brief Overview of the Charter School Finance Policy Literature**

Studies that address charter school funding tend to focus on whether or not state laws foster funding parity between charter and traditional public schools. Many of the studies addressing this question find that charter schools have access to fewer resources than traditional public schools, and that charter schools' inability to access traditional public school capital funding sources accounts for much of this disparity.

Charter school advocates see these studies as demonstrating the need for increased charter school funding in order to give charter schools a fair opportunity to improve American education. Those who oppose charter schools argue that charter schools drain money from public schools, and point out that calls for increased funding by school choice advocates conflict with the frequently made assertion that charter schools can operate more efficiently and for less money than public schools.

The overview is organized by the key findings in the literature:

- Charter schools receive less funding than traditional public schools.
- Charter schools spend about the same amount per pupil as the host district.
- Charter schools may contribute to fiscal uncertainty for school districts.
- Charter schools have differing financial and organizational impacts on host school districts.
- Charter schools face significant fiscal challenges.
- Charter Schools face challenges in funding facilities.

The overview also examines methods of evaluating charter school financial performance.

#### ***Charter schools receive less funding than traditional public schools***

Several recent policy reports have found that charter schools tend to receive less funding than traditional public schools. They found that in comparison to traditional public schools, charter schools in many states had less access to federal funds for disadvantaged communities, had fewer total public resources, received less in average per pupil revenues and secured less total revenue per pupil than host school districts.

Policy Analysis for California Education (PACE), a group comprising researchers from Stanford University and the University of California, Berkeley and Davis, released a working paper in April 2003 entitled "Charter Schools and Inequality: National Disparities in Funding, Teacher

Quality and Student Support.”<sup>138</sup> The PACE paper analyzed results from a survey conducted in 2002 by the National Center for Educational Statistics (NCES), consisting of written responses from principals and teachers representing 870 of the 1,010 charter schools then operating nationwide.<sup>139</sup> The study’s authors wrote that, “Policy makers should consider whether to expand charter schools or ensure that these fledgling institutions receive basic financing that is comparable to regular public schools. Otherwise, we may never implement a fair test of this important experiment in public education.”<sup>140</sup> This study’s primary conclusion was that, under existing laws, charter schools were in danger of reproducing the same spectrum of inequality found in public schools. The study found that charter schools enrolling more than 50% African American or Latino students are more likely to have younger, less qualified teachers than schools that enroll more than 50% white students.<sup>141</sup> The study also found that, in the aggregate, charter schools do not succeed in fully identifying students eligible for free or reduced-price lunches and Limited English Proficiency (LEP) students. Charters therefore received less Title I and LEP funding than they were entitled to, the study said.<sup>142</sup>

The Institute for Education and Social Policy (IESP), part of New York University’s Steinhardt School of Education, published a study in March 2004 entitled, “Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools,” that focused on funding parity for New York City charter and traditional public schools.<sup>143</sup> This study compared the average New York City per pupil operating expenditure for traditional public schools with the average per pupil resources available to New York City charter school students. (It reasoned that charter school expenditures should not be compared with traditional public school expenditures since charters were designed to have more flexibility in using their resources.)<sup>144</sup>

Acknowledging that “New York City district [operating] expenditures vary widely by student type,” the IESP study also made separate comparisons for students with disabilities; elementary, middle, and high school students; and students with special needs.<sup>145</sup> The study found “that New

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<sup>138</sup> Bruce Fuller et al., “Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support” (Policy Analysis for California Education, April 2003), [http://eric.ed.gov/ERICDocs/data/ericdocs2/content\\_storage\\_01/0000000b/80/27/e1/29.pdf](http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/27/e1/29.pdf).

<sup>139</sup> Bruce Fuller et al., “Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support” (Policy Analysis for California Education, April 2003), [http://eric.ed.gov/ERICDocs/data/ericdocs2/content\\_storage\\_01/0000000b/80/27/e1/29.pdf](http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/27/e1/29.pdf), 13.

<sup>140</sup> Bruce Fuller et al., “Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support” (Policy Analysis for California Education, April 2003), [http://eric.ed.gov/ERICDocs/data/ericdocs2/content\\_storage\\_01/0000000b/80/27/e1/29.pdf](http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/27/e1/29.pdf), p. 27.

<sup>141</sup> Bruce Fuller et al., “Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support” (Policy Analysis for California Education, April 2003), [http://eric.ed.gov/ERICDocs/data/ericdocs2/content\\_storage\\_01/0000000b/80/27/e1/29.pdf](http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/27/e1/29.pdf), p. 24.

<sup>142</sup> Bruce Fuller et al., “Charter Schools and Inequality: National Disparities in Funding, Teacher Quality, and Student Support” (Policy Analysis for California Education, April 2003), [http://eric.ed.gov/ERICDocs/data/ericdocs2/content\\_storage\\_01/0000000b/80/27/e1/29.pdf](http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/27/e1/29.pdf), 19. The Fuller *et al.* study notes that charter schools that began as converted public schools are more successful at securing the appropriate levels of Title I and LEP funding.

<sup>143</sup> Robin Jacobowitz and Jonathan S. Gyurko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004).

<sup>144</sup> Robin Jacobowitz and Jonathan S. Gyurko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), p. 1.

<sup>145</sup> Robin Jacobowitz and Jonathan S. Gyurko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), p. 1.

York City charter schools have fewer public resources than traditional public schools” at all educational levels and for both general and special education students. In 2001-2002, the average per pupil resources for charter schools (\$8,452) lagged behind the average per pupil operating expenditure in New York City (\$9,057) by \$605 or 6.7%.<sup>146</sup> In 2001-2002, that gap widened for students with disabilities and students with special needs (such as Limited English Proficiency students), but new rules in New York City beginning in 2002-2003 brought charter school per pupil revenues for students with disabilities into line with district per pupil operating expenditures for those students.<sup>147</sup> The study also found that charter schools devoted an average of \$1,600 per pupil to capital expenditures, which decreased their available per pupil operating resources by 19%. The City has worked to eliminate this disparity too by making space in underutilized district facilities available to charter schools at no cost, and “by providing charter schools with the same start-up funding that new Department of Education schools receive upon opening.”<sup>148</sup>

An August 2005 report published by the Thomas B. Fordham Institute, entitled *Charter School Funding: Inequity’s Next Frontier*, found that charter schools were moderately to severely underfunded in 14 of the 16 states studied (and in the District of Columbia) during the 2002-2003 school year. Authors Sheree Speakman, Bryan Hassel, and Chester Finn compared the average per-pupil revenues for charter schools in a given state with that state’s average per-pupil revenues for all traditional public school students.<sup>149</sup> Moderate underfunding in this study is defined as 5% to 15% less than public school funding levels. Charter schools in four states, including Illinois, and the District of Columbia were categorized as largely underfunded (15% to 25% below public school funding levels), and charter schools in six states were characterized as severely underfunded (more than 25% below public school funding levels). Only Minnesota and New Mexico were characterized as approaching parity.<sup>150</sup>

Speakman *et al.* said that in big urban school districts, per pupil revenue disparities between charter and public schools are often larger than the disparities based on statewide averages. This study concluded that charter schools’ inadequate access to funding sources and, in particular, to local funding for capital needs, was the primary cause for the underfunding of charter schools.

*Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study* is a follow up to a 2000 report *Venturesome Capital: State Charter School Finance Systems*. Both reports were published by the American Federation of Teachers. *Paying for the Vision* described how charter schools were funded in the District of Columbia and the

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<sup>146</sup> Robin Jacobowitz and Jonathan S. Gyrko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), p. 4.

<sup>147</sup> Robin Jacobowitz and Jonathan S. Gyrko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), pp. 11-14.

<sup>148</sup> Robin Jacobowitz and Jonathan S. Gyrko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), pp. 14-15.

<sup>149</sup> Sheree Speakman, Bryan Hassel, and Chester E. Finn, Jr., *Charter School Funding: Inequity’s Next Frontier* (Thomas B. Fordham Institute, August 2005), <http://www.edexcellence.net/doc/Charter%20School%20Funding%202005%20FINAL.pdf> .

<sup>150</sup> Sheree Speakman, Bryan Hassel, and Chester E. Finn, Jr., *Charter School Funding: Inequity’s Next Frontier* (Thomas B. Fordham Institute, August 2005), <http://www.edexcellence.net/doc/Charter%20School%20Funding%202005%20FINAL.pdf> . , p. 1).

following 11 states: Arizona, California, Colorado, Connecticut, Florida, Massachusetts, Michigan, Minnesota, North Carolina, Pennsylvania and Texas. The study collected and analyzed revenue and expenditure data at the charter school level to determine how charter school funding was different than school district funding. Data were collected for a single year in each of the states and the District of Columbia. Those years were the 1997-1998 school year in eight jurisdictions and the 1998-1999 school year in for jurisdictions.<sup>151</sup> The review included an examination of how funds were used. The main research questions considered were:

- What effects do differences in charter school funding have on the student and staffing characteristics of charter schools?
- How does charter school funding differ from school district funding and why?
- Do charter schools get more or less funding than other public schools that offer comparable services for similar students?
- Do charter school funding systems result in charter schools using resources differently than school districts?<sup>152</sup>

*Paying for the Vision* had 24 principal findings. They are presented below by topic area.

#### *Charter Size and Location*<sup>153</sup>

1. While smaller than most public schools, charter schools must also perform some of the administrative and support functions of school districts.
2. Individual charter school size varies substantially.
3. Charter schools tend to be located in larger school districts.

#### *Low-Income and Limited English Proficiency*<sup>154</sup>

4. Charter schools enrolled a smaller proportion of low-income students than host districts in two-thirds of the states studies.
5. Limited-English Proficiency students made up a smaller proportion of enrollment in charter schools than host districts.

#### *Special Education*<sup>155</sup>

6. Charter schools serve fewer special education students as a percentage of enrollments than host school district.

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<sup>151</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, p. 6.

<sup>152</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003.

<sup>153</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 10-12.

<sup>154</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 12-15.

<sup>155</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 15-19.

7. School districts spent \$300 per pupil to \$500 per pupil more than charter schools for special education (in total enrollment, not just students with disabilities).
8. Special revenue sources for special education fell far short of actual expenditures in charter schools and host school districts. This indicates that significant support for special education was derived from general revenue sources.
9. Host school districts enrolled a higher share of special education children in medium and high cost programs than charter schools.

#### *Grade Levels Served by Charters*<sup>156</sup>

10. States that provided extra funding for high schools did not end up with more secondary students in charter schools than states that did not provide the extra funding.

#### *Administration Staffing and Expenditures*<sup>157</sup>

11. The average charter school employs three to four times as many full-time equivalent (FTE) administrators per 10 students as host school districts.
12. Charter school per-pupil expenditures for administration were higher than host school district administration figures in every state, ranging from approximately \$150 more per pupil to \$800 more per pupil.
13. Management companies operating charter schools had higher administrative costs relative to other charter schools and host school districts.

#### *Facilities and Capital Expenditures*<sup>158</sup>

14. The combined per-pupil costs of capital outlay, rent, leases, utilities, cleaning, maintenance, furnishings, equipment such as computers and technology infrastructure were about the same for charter schools and host school districts.

#### *Instructional Staffing and Expenditures*<sup>159</sup>

15. Charter school pupil to teacher ratios were about the same or greater than host school district ratios in every state but one.
16. Charter schools spent fewer dollars per pupil on instruction than host school districts in every state, ranging from \$400 less per pupil to \$1,400 less per pupil.
17. Charter schools employ less experienced teachers with lower pay than host school districts and offer fewer benefits. The researchers attributed this to charter schools spending less on instruction than other schools.

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<sup>156</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 19-20.

<sup>157</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 20-22.

<sup>158</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 23-26.

<sup>159</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 26-29.

18. Per pupil spending for instruction in schools operated by management companies was about the same or less than in charter schools.

*Food Service and Transportation*<sup>160</sup>

19. Many charter schools provided no transportation or food service programs; transportation and food service combined accounted for approximately \$400 per pupil less spending in charter schools than in host school districts.

*Federal Revenue*<sup>161</sup>

20. Revenue from the federal government was a larger share of total revenues for charter schools than for host school districts in eight states.

*Non-Tax Revenue Including Private Contributions*<sup>162</sup>

21. Most charter schools raise little private funding, although a small number of charter schools in most states do raise substantial sums.

*Total Revenue and Financial Position*<sup>163</sup>

22. Charter schools in 11 of 12 states secured less total revenue per pupil than host school districts, ranging from \$1,841 less per pupil in Connecticut to \$222 less per pupil in North Carolina.

23. Much of the difference between charter school and host school district total revenue is due to school districts receiving more revenue as well as spending more money than charter schools for higher cost programs such as special education, vocational education, food service and transportation.

24. The financial position of the typical charter school, as measured by the end of year fund balance, improved in 8 of 10 states where data was collected for this indicator.

***Charter schools spend about the same amount per pupil as the host district***

One major report of charter school finance in Pennsylvania found that Charter schools spent roughly the same amount per pupil as the host school district.

*Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools* was an in-depth study of Pennsylvania charter schools conducted by the Western Michigan University Evaluation Center for the Pennsylvania Department of Education in 2000. It was designed to fulfill a state law requirement for an evaluation of the state's charter school program

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<sup>160</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 29-31.

<sup>161</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 31-33.

<sup>162</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 33-35.

<sup>163</sup> F. Howard Nelson, et al. *Paying for the Vision: Charter School Revenue and Expenditures: National Charter School Finance Study*. Washington, D.C.: American Federation of Teachers Educational Foundation, 2003, pp. 35-38.

after 5 years of its existence. The study was designed to answer the question, “Does increased flexibility in exchange for increased accountability result in improved pupil results?”

*Autonomy in Exchange for Accountability* included a detailed look at charter school finances in Pennsylvania using data from the 1998/1999 school year. Specifically, the report examined charter school revenues, analyzed charter expenditures and provided indicators of financial viability. Most of the analysis was based on the 31 charter schools operating during the 1998/99 academic year. Where possible, study included 17 additional schools that opened in 1999/2000 academic year.<sup>164</sup> Four major questions guided the fiscal analysis:<sup>165</sup>

1. From what sources do charter schools obtain revenues?
2. How do charter schools spend money?
3. How does charter school spending compare with that of other public schools?
4. Are charter schools fiscally viable?

The major findings of *Autonomy in Exchange for Accountability* follow:<sup>166</sup>

- The median charter school spent about the same amount per pupil as its host district during the 1998/1999 school year.
- The median charter school received 81% of revenues from Local Education Agencies (LEAs). However, there was great variation in revenues received among individual charter schools, ranging from a low of 17% to as much as 89% of total revenues deriving from LEAs. Other monies came from the federal government or revenues raised by the charter schools.
- The second largest source of charter school revenues was the federal government, via Title I monies and grants. The median charter school received 7% of total revenues from the federal government.
- Charter schools typically spent a smaller percentage than their host districts on instruction (59% versus 66%) and a larger percentage on support services (including renting and maintaining facilities) and non-instructional items.
- Charter schools tended to employ conservative budgeting techniques, taking in more revenues than originally projected and spending less than originally expected.
- Most charter schools had end of year surpluses. However, seven charter schools (23% of the total) had deficits.

### ***Charter schools may contribute to fiscal uncertainty for school districts***

In May 2001 a Moody’s Investors Service report entitled “Growth in Charter Schools Begins to Reveal Likely Impact on Traditional Public School Systems” concluded that traditional public schools might face difficulties in meeting their “educational mandates while maintaining a

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<sup>164</sup> Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University. October 2000, p. v.

<sup>165</sup> Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University. October 2000, p. 50.

<sup>166</sup> Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University. October 2000, pp. iv-v.



modicum of financial flexibility”<sup>167</sup> because charter school proximity to traditional public schools created uncertainty regarding future pupil enrollment. As school funding is heavily based on headcount, enrollment uncertainty for traditional schools can translate into overall school district funding uncertainty. This fluid situation makes planning and providing academic services difficult for school districts. However, the situation varies in different situations.

Moody’s found that the extent of the financial impact on traditional public schools depends on the three following factors:

1. The number of students lost to charter schools relative to the size of the existing school or district. If the proportion of total school district enrollment shifted to or “lost” to charter schools is large, the impact can be large. If it is small, the impact may be minimized. In concrete terms, a 10% student enrollment shift from traditional public schools to charter schools can have a substantial financial impact on the host school district while a 1% shift could have a minimal impact.
2. The flexibility of management’s ability to reduce spending to correspond to enrollment related revenue losses. If a school district cannot reduce fixed operating costs (e.g., costs for energy, debt service, supplies) at the same time it loses revenues due to enrollment shifts from traditional public schools to charter schools, “the net financial impact can be very significant.”<sup>168</sup>
3. Legal remedies enacted by state governments to preserve the revenue streams of traditional public schools. Several states provide temporary transitional aid to school districts to compensate the school district for the loss of charter school revenues. If such a plan is in place, the financial impact is mitigated in the short term.

### ***Charter schools have differing financial and organizational impacts on host school districts***

The U.S. Department of Education commissioned a study in 2001 entitled Challenge and Opportunity: The Impact of Charter Schools on School Districts – A Report of the National Study of Charter Schools. Part of a 4-year research effort on U.S. charter schools, the study evaluated:

1. Changes school districts have made in operations and education that could be attributed to charter schools.
2. The conditions under which charter schools affect changes in operations and education.

While the study was comprehensive in its scope, certain portions were particularly relevant to an understanding of charter school financial issues. It found that charter schools had a definite impact on the finances, organization, facilities and staffing of their host school districts in most cases. However, the influence of that impact varied widely among the districts studied.

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<sup>167</sup> Moody’s Investors Services. “Growth in Charter Schools Begins to Reveal Likely Impact on Traditional Public School Systems.” May 2001, p. 4.

<sup>168</sup> Moody’s Investors Services. “Growth in Charter Schools Begins to Reveal Likely Impact on Traditional Public School Systems.” May 2001, p. 5.

The study evaluated data from 49 school districts in Arizona, California, Colorado, Massachusetts and Michigan. Information was collected through in-site visits in 14 districts and telephone interviews in the remaining 35 districts.<sup>169</sup>

Researchers asked school district leaders how charter schools had affected their budgets. They found that:

- 45% of those interviewed reported that charter schools had a negative fiscal impact. This was primarily due to reductions in funding for traditional public schools because of student transfers to the charter schools. Some officials reported having to eliminate staff because of reduced funding.
- 47% of the leaders reported no impact on their budget.
- 8% reported a positive fiscal impact. In those districts savings on capital costs offset any loss of enrollment based revenues.<sup>170</sup>

Most respondents felt that charter schools had an impact on school district operations:

- 90% of the respondents reported having to conduct their business and/or operations differently in response to the presence of charter schools.
- In 94% of districts, central office operations had to change – mostly related to tracking students that left and/or returned from charter schools.
- Many also reported heavier workloads related to charter-related activities such as charter school renewal hearings and assistance with implementation of new charter schools.<sup>171</sup>

School district facilities were impacted by the presence of charter schools, according to respondents:

- 61% of the districts reported that charter schools had affected their facilities in some way.
- In 35% of the districts, charter schools had relieved overcrowding or the pressure to build new schools.
- In 25% of districts, charters had created to a situation in which traditional schools were operating under capacity or were being closed.
- In 8% of districts, charters had forced budget cutbacks, including teacher layoffs.
- In 6% of districts, class sizes were decreased in traditional public schools to match charter class sizes.<sup>172</sup>

Many respondents reported that school-level staffing changed in response to the presence of charter schools:<sup>173</sup>

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<sup>169</sup> *The National Study of Charter Schools*. Prepared by RPP International for the U.S. Department of Education, Office of Educational Research and Improvement, June 2001, p. 1.

<sup>170</sup> *The National Study of Charter Schools*. Prepared by RPP International for the U.S. Department of Education, Office of Educational Research and Improvement, June 2001, p. 10.

<sup>171</sup> *The National Study of Charter Schools*. Prepared by RPP International for the U.S. Department of Education, Office of Educational Research and Improvement, June 2001, p. 11.

<sup>172</sup> *The National Study of Charter Schools*. Prepared by RPP International for the U.S. Department of Education, Office of Educational Research and Improvement, June 2001, p. 14.

<sup>173</sup> *The National Study of Charter Schools*. Prepared by RPP International for the U.S. Department of Education, Office of Educational Research and Improvement, June 2001, pp. 15-16.

- 29% of school districts reported that there were staffing changes because of the presence of charter schools, including layoffs and/or changes in staff roles.
- 61% of the districts made changes in educational offerings such as developing specialized schools and/or changing organizational structures.
- 49% of districts developed new educational programs in traditional public schools in direct response to charter schools.

### ***Charter schools face significant fiscal challenges***

There are two types of financial analyses that examine the significant fiscal challenges faced by charter schools: rating agency credit analyses and financial indicator reports.

The rating agencies regularly issue reports on the creditworthiness of charter school bonds. These reports focus primarily on the relatively small group of charter schools issuing debt. However, they do provide general information about important nationwide charter school management and fiscal trends. In addition, as the administration and financing of charter schools throughout the U.S. are fairly similar, the rating agency reports provide a useful overview of the key fiscal issues the schools face and ways to evaluate their fiscal condition. These reports find that charter schools face significant fiscal challenges because of limited capital funding, narrow financial operations that focus on increasing enrollment and inexperienced management.

One of the more recent reports on charter school finances from Moody's Investors Service, "Charter School Ratings Methodology," was released in 2006. Many of the findings are mirrored in other reports by Moody's in 2002 and 2003<sup>174</sup> as well as reports by the other credit rating agencies.<sup>175</sup> As such it can be considered a representative report.

"Charter School Ratings Methodology" described Moody's credit rating methodology for charter schools. At that time, Moody's rated the credit of 19 charter schools: nine individual school ratings with the remaining 10 schools included in two pooled financing structures. The charter schools Moody's rated had ratings ranging from A3 to B3 with a median rating of Ba1, which denotes a speculative rating grade. The low ratings for most schools were primarily due to their small size and very narrow financial margins.<sup>176</sup>

Moody's reported that there were several positive trends that will improve charter school credit quality over time:

- **Industry maturation.** There are a growing number of charter schools that have been in existence for five or more years. As administrators gain experience in managing charter schools, there should be an increase in the stability of charter school management practices.

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<sup>174</sup> Moody's Investors Service. "Moody's Reports: Charter Schools Credit Outlook Stable, though Credit Strength Falls Below Many Public and Private Schools" (June 24, 2002) and "Moody's Methodology and Median Report on Charter Schools" (July 2003).

<sup>175</sup> For a representative sample, see Standard & Poor's. "Public Finance Criteria: Charter Schools." November 13, 2002; and Fitch Ratings. "Growing Pains: Charter Schools Begin their Second Decade." April 29, 2002.

<sup>176</sup> Moody's Investors Service. *Charter Schools Rating Methodology*. November 2006. p. 2.

- Growing enrollment levels. Charter school headcount continues to grow, rising from 300,000 children in 1999 to over 600,000 in 2004.
- Continued political support and improved oversight. Political support for charter schools at the federal, state and local levels remains stable.

At the same time, charter schools faced three significant challenges in the future:

- Limited capital funding. Charter schools will continue to have access to limited funding for their capital needs. They must largely fund both operating and capital needs with state operating aid.
- Narrow financial operating margins. Most charter schools will continue to focus primarily on attracting students through program development. They will not focus on building reserves. Schools with non-government funding sources such as private or nonprofit grants will be more successful financially than those without.
- Event risk/inexperienced management. Charter schools are highly susceptible to enrollment swings based on negative events such as an enrollment decline due to construction delays. There are also many administrative problems with inexperienced school management teams.

The 2006 report reviews the rating factors Moody's uses to evaluate charter school creditworthiness. The five key credit factors evaluated were:

1. Market position (enrollment trends and projections, competition and educational alternatives, school size).
2. Governance and management (institutionalized management, composition and role of the board of directors, use of private management companies).
3. Covenants and legal framework (additional bonds tests, debt service and other reserves, mortgage liens, flow of funds, coverage related covenants).
4. Charter and state specific credit factors (quality of charter school oversight, charter renewal risk).
5. Financial position and performance (operating performance/debt service coverage, budgeting practices, reserve levels and balance sheet flexibility, extent of leveraging).

As financial position and performance are most relevant to this study, a more detailed review of these indicators follows.

Operating Performance/Debt Service Coverage: Moody's evaluates charter school operating performance and ability of a charter school to meet its debt service coverage requirements with the following indicators:

- Enrollment needed to achieve coverage of debt service based upon current per pupil state aid levels;
- Operating cash flow margin;
- Current year net revenues versus current year debt service; and
- Current year net revenues versus maximum annual debt service.

Budgeting Practices: Moody's analyzes charter school budgeting practices to determine if the school has the ability to react in a timely manner to budget variances and changes in enrollment. Two important components of the analysis are whether the charter school uses performance based budgeting and multi-year forecasting techniques.

Reserve Levels and Balance Sheet Flexibility: A reserve analysis assesses a charter school's ability to deal with contingencies such as reduced enrollment or rising fuel costs. The larger the amount of unrestricted reserves, the better the school can address unanticipated financial problems. The metric commonly used to evaluate reserves are:

- Unrestricted cash balance as a percent of the school's operating budget, and
- The quick ratio, a comparison of current assets to current liabilities.

In addition, Moody's assesses balance sheet flexibility, which is a review of unrestricted financial resources relative to operations.<sup>177</sup>

Extent of Leveraging: The degree to which charter schools are leveraged is measured by Moody's using two indicators:

- Unrestricted financial resources to debt. This measures debt coverage by the most liquid financial resources.
- The ratio of long-term debt to net capital assets.
- Debt service as a percent of operating revenue.

Moody's also evaluates a school's capital needs, the possibility of future debt and the impact of future borrowing on both debt and coverage levels.

*An Examination of the Financial Health of Georgia's Start-Up Charter Schools* looked at financial health of the 34 start-up charter schools in Georgia during the 2006-2007 academic year.<sup>178</sup> The authors defined financial health as the short-term ability to meet recurring expenses with recurring revenues. Charter school in good financial health were defined as those with the ability to maintain an adequate service level during fiscal downturns as well as the ability to meet enrolment changes and secure resources to expand. Charter schools in fiscal stress were those that had difficulty in developing a balanced budget, had service declines as enrollment drops, had a hard time adjusting to fluctuation in state or federal support and did not have the resources to expand or meet needs in the future.

The financial indicators used by Searcy and Duncombe to measure financial health were measures of liquidity, fund balance, step/fixed costs and budget flexibility. They found that:

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<sup>177</sup> Moody's Investors Service. *Charter Schools Rating Methodology*. November 2006. p. 5.

<sup>178</sup> Cynthia S. Searcy and William Duncombe. *An Examination of the Financial Health of Georgia's Start-Up Charter Schools*. (Atlanta: Fiscal Research Center at the Andrew Young School of Policy Studies at Georgia State University). July 2009.

- The financial health of the Georgia start-up charter schools was mixed. A majority of startup schools had a positive financial position. However, over 40% of the schools reported an operating deficit.
- Having enough cash on hand to meet expenses is difficult in the beginning years of a charter school. Consequently, schools tend to have low liquidity ratios in their first three years. But if the charter school continues to the fourth year and beyond, it is often able to accumulate more consistent and predictable fund balances.
- School size is positively related to charter school financial health.
- Charter schools have few opportunities to realize economies of scale because they are small independent organizations.
- There is no official guidance or rule for start-up charter schools on which accounting guidelines or presentation to use in preparing their financial statements.

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<sup>179</sup> Cynthia S. Searcy and William Duncombe. *An Examination of the Financial Health of Georgia's Start-Up Charter Schools*. (Atlanta: Fiscal Research Center at the Andrew Young School of Policy Studies at Georgia State University). July 2009.

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### ***Charter Schools Face Challenges in Funding Facilities***

Some of the policy literature finds that charter schools have spent more on facilities than traditional public schools and have experienced difficulties in funding their infrastructure needs. The primary problems charter schools face in issuing debt is that:

- They are viewed as risky ventures by potential lenders and investors because charters can be terminated, thus putting at risk the revenue stream needed to pay for bond issues that may have a 20-year lifespan.
- They lack the ability to issue low risk debt because the primary source of revenue for debt service is per pupil revenue flows, which can fluctuate annually.<sup>180</sup>

As noted previously, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* found that charter schools devoted an average of \$1,600 per pupil to capital expenditures, which decreased their available per pupil operating resources by 19%. The City has worked to eliminate this disparity by making space in underutilized district facilities available to charter schools at no cost, and “by providing charter schools with the same start-up funding that new Department of Education schools receive upon opening.”<sup>181</sup>

In January 2004 the Institute for Education and Social Policy (IESP), part of New York University’s Steinhardt School of Education, released *The Finance Gap: Charter Schools and their Facilities*. This report placed charter schools’ inability to access capital funds within the context of a national need for increased capital funds for public schools. Based on interviews with charter and traditional public school officials and members of the financial community in 14 states and Washington, D.C., the report documented the challenges charter schools have faced in paying for capital needs with operating funds.<sup>182</sup> It described the gradual evolution of private financing mechanisms that have grown up in response to charter school needs, and found that charter schools that enrolled fewer than 300 students had more difficulty surviving than other charters because the finance community did not view them as “finance-able.”<sup>183</sup> The study also

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<sup>180</sup> United States Department of Education. “Credit Enhancement for Charter School Facilities.” [www.ed.gov/programs/charterfacilities/index.html](http://www.ed.gov/programs/charterfacilities/index.html).

<sup>181</sup> Robin Jacobowitz and Jonathan S. Gyrko, *Charter School Funding in New York: Perspectives on Parity with Traditional Public Schools* (New York: New York University, March 2004), pp. 11-14.

<sup>182</sup> Carol Ascher et al., *The Finance Gap: Charter Schools and their Facilities* (New York: Institute for Education and Social Policy, Steinhardt School of Education at New York University, 2004), <http://www.liscnet.org/resources> and the Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=cLaw>.

<sup>183</sup> Carol Ascher et al., *The Finance Gap: Charter Schools and their Facilities* (New York: Institute for Education and Social Policy, Steinhardt School of Education at New York University, 2004), <http://www.liscnet.org/resources> and the Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=cLaw>, p. 32.

recommended that, “Charter school funding formulas should be amended to include all or part of the substantial infrastructure costs borne by these schools,” and that charters “should be allowed to participate in the general obligation bond issuances of traditional public schools.”<sup>184</sup>

*Paying for School: An Overview of Charter School Finance* examined the market for financing charter school facilities in the U.S.<sup>185</sup> Published by the Federal Reserve Bank of San Francisco’s Community Development Investment Center in 2000, the report reviewed existing charter school finance research and included interviews with leading practitioners from the public, private and nonprofit sectors.

This report found that a major problem limiting charter school growth was a lack of adequate public and private funding for facilities. Few charter schools own their facilities and charter schools rarely possess the direct taxing or bonding authority that traditional public schools use to pay for facilities. Most states require charter schools to self fund their facilities either from general operating revenues, funds they raise privately or partnerships with other organizations.<sup>186</sup> Lenders often view charter schools as risky propositions because the schools do not have a long operating history. Unfortunately, the schools often most need loans in their beginning stages, when they have little or no operational history. Another problem faced by charter schools seeking access to credit markets is that the term of many charters is shorter than that of the borrowing agreement. For example, while a charter may last 5 years, the debt incurred may not be repaid for 20 years. Lenders are assuming a good deal of risk as renewal of the charter is by no means certain. The direct impact of this uncertainty and risk translates into the rating agencies such as Moody’s giving speculative credit ratings to charter school debt issues.<sup>187</sup>

Much of *Paying for School: An Overview of Charter School Finance* explains the variety of financing tools used by charter schools to fund capital acquisition, construction and expansion. A brief overview of these mechanisms follows.

Bonds. Some charter schools have been able to finance their capital programs through debt issued by a state or municipal authority. Many of these debt issues were negotiated sales or private placements. Private placements have lower costs than other forms of debt financing and are subject to fewer regulatory requirements.

U.S. Department of Education Credit Enhancement Program. This federal program provides grants on a competitive basis to public and nonprofit entities and consortia composed of those entities. It is subject to annual congressional appropriation. The credit enhancement program

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<sup>184</sup> Carol Ascher et al., *The Finance Gap: Charter Schools and their Facilities* (New York: Institute for Education and Social Policy, Steinhardt School of Education at New York University, 2004), <http://www.liscnet.org/resources> and the Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=cLaw>, p. 33.

<sup>185</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008 See <http://www.frbsf.org/publications/community/wpapers/2008/wp08-03.pdf>

<sup>186</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008 See <http://www.frbsf.org/publications/community/wpapers/2008/wp08-03.pdf>, p. 31.

<sup>187</sup> Moody’s Investors Service. *Charter Schools Rating Methodology.* November 2006. p. 2.



grants are intended to assist charter schools in building or acquiring facilities. They can be used as guarantees for construction loans, leasehold improvement loans and for general facilities financing.<sup>188</sup> The grant funds typically are drawn down in a one-time payment in advance of being used and may be invested, which is an unusual feature.<sup>189</sup>

Management and Financial Intermediaries. Charter schools often use the services of third party intermediaries called Charter Management Organizations to provide operations oversight and/or Development Intermediaries to facilitate development, construction, rehabilitation and financing for capital needs.<sup>190</sup> Many charter schools utilize the assistance of Community Financial Development Institutions (CFDIs) for their financing needs. CFDIs are private financial institutions with a focus on serving underserved communities. They are intended to foster economic development through innovative financing practices. CFDIs are locally based and can comprise community development banks, community development loan funds, microenterprise funds and venture funds.<sup>191</sup> They can and do manage U.S. Department of Education Credit Enhancement program grants for charter schools. In Illinois, the largest CFDI in the Midwest, the Illinois Facilities Fund (IFF), has used grant credit enhancement program grants for publicly sold bonds.<sup>192</sup> The IFF has helped Chicago charter schools such as the Noble Network of Charter schools obtain \$18 million in grants from the credit enhancement program.<sup>193</sup>

State Intercept Mechanisms. In some states, an authorizing agency intercepts charter school revenues and uses them to pay debt service expenses. The intercept mechanism acts as a credit enhancement for lenders or investors concerned about the risk in charter school bond transactions.<sup>194</sup>

Moral Obligation Pledges. The state governments of Colorado and Indiana offer moral obligation pledges for charter school bond issues. Moral obligation debt is secured by a moral, but not a legal pledge from a government entity. The primary source of debt service payments in these cases are charter school revenues. If revenues are insufficient, the issuer promises to use other revenue to cover the shortfall.<sup>195</sup> The purpose of moral obligation bonds is to provide access to credit markets for entities or enterprises such as charter schools that would not otherwise have ready access to those markets.

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<sup>188</sup> United States Department of Education. "Credit Enhancement for Charter School Facilities." [www.ed.gov/programs/charterfacilities/index.html](http://www.ed.gov/programs/charterfacilities/index.html).

<sup>189</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008, p. 37.

<sup>190</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008, p. 37.

<sup>191</sup> <http://www.investopedia.com/terms/c/cdfi.asp>.

<sup>192</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008, p. 38.

<sup>193</sup> United States Department of Education. "Program Highlights of Charter Schools Served through the Credit Enhancement for Charter School Facilities Program." [www.ed.gov/programs/charterfacilities/examples.html](http://www.ed.gov/programs/charterfacilities/examples.html).

<sup>194</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008, p. 38.

<sup>195</sup> A John Vogt. *Capital Budgeting and Finance: A Guide for Local Governments* (Washington: International City/County Management Association, 2005), pp. 209-210.

### ***Methods of Evaluating Charter School Financial Performance***

Some studies of charter school finance have developed ways to evaluate the fiscal performance and viability of the schools. The various Moody's Investor Services reports, reports from other rating agencies and *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools* discussed above include methods of evaluating charter school performance. Another report that took up the challenge of charter school performance was "Assessing the Performance of Charter Schools," published in *The RMA Journal*<sup>196</sup> in 2002.

"Assessing the Performance of Charter Schools" proposed a charter school general performance assessment (GPA) calculator to evaluate the financial performance of individual charter schools in the District of Columbia. The GPA calculator originally was created at the City First Bank of DC to help facilitate the underwriting process. The calculator has since become a key standardized evaluation method for analyzing charter school financial performance.<sup>197</sup> The Bank, which has provided bridge financing as well as capital purpose loans for the District of Columbia's charter schools is Washington D.C.'s only financial institution dedicated solely to community development finance in the city and its suburbs.<sup>198</sup>

The GPA calculator uses financial information and nonfinancial performance data to prepare an evaluation of each school's performance. The performance is summarized in a "report card" that uses a four point scale to grade individual factors as well as the overall general performance assessment. The evaluation process is completed in four steps.

*Step One: Financial Analysis.* In the first step, data are listed from each charter school's financial statements to be used in a later step to determine key measures of liquidity, leverage, capitalization, and profitability. Some of the key categories used include:

- Compensation expenses for salaries and benefits, and
- Occupancy costs, which include lease or mortgage payments, utilities, repairs and maintenance.

These are the two largest expense categories for a typical school.<sup>199</sup> The assessment also includes information about each school's profit margin. The long term fiscal viability of a charter school relies upon having a secure profit margin to build up a reasonable capital base.<sup>200</sup>

*Step Two: Performance Analysis.* Once financial data has been entered, nonfinancial data regarding performance is collected and then used for the following indicators:

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<sup>196</sup> *The RMA Journal* is the professional journal of the Risk Management Association, a "member-driven professional association," that "helps banking and nonbanking institutions identify and manage the impacts of credit risk, operational risk, and market risk on their businesses and customers." See [www.rmahq.org/RMA/](http://www.rmahq.org/RMA/).

<sup>197</sup> Jonathan Kivell. *Federal Reserve Bank of San Francisco Community Development Investment Center. Paying for School: An Overview of Charter School Finance.* 2008, p. 39.

<sup>198</sup> <http://www.cityfirstbank.com/>

<sup>199</sup> Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal.* December 2002-January 2003, pp. 49 and 52.

<sup>200</sup> Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal.* December 2002-January 2003, p. 52.

- Changes in standardized test scores;
- Reductions in the percentage of students resting at below basic levels for their grades;
- Turnover levels of instructional staff; and
- Average attendance levels.<sup>201</sup>

Part of the performance analysis involves implementing a facilities status evaluation. This step is intended to evaluate the stability of the charter school's facilities using a sliding scale:

- The least stable situation is when a school has a temporary lease of less than one year.
- The second least stable situation is a short term lease of 1-5 years in duration.
- A lease of five or more years or a lease with of that length with a purchase option is considered the next most stable option.
- The most stable situation is if the facilities are owned.<sup>202</sup>

*Step Three: Calculate Ratios.* In the third step, a series of performance and financial ratios are calculated. Many of the financial ratios are commonly used for financial or investment analysis by municipal analysts or entities such as rating agencies.

*Step Four: Benchmarking.* Next, performance benchmarks are used for each factor considered to determine a grade.

*Step Five: Weighting of Grades.* In this step, each grade is weighted and the weighted grades are added to the performance factors.

*Step Six. Calculation of the Final GPA.* The factors being evaluated are averaged to produce a final general performance assessment score.

### **Charter School Funding Models in the United States**

The basic funding principle shared by all charter school legislation in the United States is that funding should follow students from traditional district schools to charter schools. There are a number of different mechanisms for enacting this principle. According to a U.S. Department of Education study of charter school finance, there are four models that determine how funds are allocated to individual charter schools. All four approaches transfer public education funds, which are generated according to the geographic characteristics, wealth, and tax efforts of the school district.<sup>203</sup> It is important to note that states can and do fund charter schools within their jurisdictions in more than one way, employing different approaches in different circumstances. The four models are as follows:

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<sup>201</sup> Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal*. December 2002-January 2003, p. 49.

<sup>202</sup> Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal*. December 2002-January 2003, p. 53.

<sup>203</sup> Howard F. Nelson, Edward Muir and Rachel Drown, *Venturesome Capital: State Charter School Finance Systems* (U.S. Department of Education: December 2000), <http://www.ed.gov/rschstat/eval/choice/charterfin.pdf>, 30.

- 1. School District Revenues:** Under a standard revenue-based model, per pupil school district revenue is calculated based on the students actually enrolled in the charter school and then transferred to the charter. Charter schools therefore receive funding that reflects specific grade levels and special needs, such as low-income status or limited English proficiency. This approach is employed by California, Arizona, Texas and New Jersey.
- 2. School District Expenditures:** This model assumes that the charter school population will have characteristics similar to that of the other district students. Charter schools receive funding based on average school district expenditures per pupil. States using this model usually specify that the appropriate categorical funding should follow students to their charter schools in order to ensure funding fairness. Otherwise, a charter school with a population that differed substantially from the rest of the school district would receive either insufficient or excessive public funding. Illinois uses this model of funding its charter schools, as do Massachusetts and Pennsylvania.
- 3. State Average:** A few states, notably Minnesota and Connecticut, base funding for charter schools on statewide per pupil funding averages.
- 4. District Budget Formula:** Several states let local school districts make charter school funding decisions. Funding in these states, which include Connecticut, Georgia, and Wisconsin, is therefore the product of negotiations between the district and individual charter schools. In many cases, however, state statute guarantees charter schools the same funding provided to regular school districts.<sup>204</sup>

The use of weights in state funding formulas to reflect the different costs of educating different student populations is an important funding issue for charter schools. For example, it is more costly to educate high school students than elementary school students. As indicated above, several states adjust funding to reflect these higher costs. These adjustments are either made by negotiation or specified by statute. If differential funding is not built into the charter school funding schedule and all students receive equal funding regardless of needs or costs, elementary charter schools will likely be overfunded and charter high schools will likely be underfunded.<sup>205</sup> Similarly, state laws usually provide for additional funding for students with disabilities. States use three different models for funding the special education students that are enrolled in charter schools. States either base funding on the type of disability that a charter school student has, determine funding through negotiation, or match a school district's special education spending or revenue.<sup>206</sup>

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<sup>204</sup> Howard F. Nelson, Edward Muir and Rachel Drown, *Venturesome Capital: State Charter School Finance Systems* (U.S. Department of Education: December 2000), <http://www.ed.gov/rschstat/eval/choice/charterfin.pdf>, pp. 30-32.

<sup>205</sup> Howard F. Nelson, Edward Muir and Rachel Drown, *Venturesome Capital: State Charter School Finance Systems* (U.S. Department of Education: December 2000), <http://www.ed.gov/rschstat/eval/choice/charterfin.pdf>, pp. 37-38.

<sup>206</sup> Howard F. Nelson, Edward Muir and Rachel Drown, *Venturesome Capital: State Charter School Finance Systems* (U.S. Department of Education: December 2000), <http://www.ed.gov/rschstat/eval/choice/charterfin.pdf>, p. 39.

In many states charter schools tend to be funded at a lower level than traditional public schools – per pupil funding sometimes falls as low as 75% of the per pupil funding provided to traditional public schools, and few states guarantee full public funding for charter schools. Individual charter schools often have to pay for facilities out of instructional revenue because most states do not provide funds to cover cost of capital infrastructure needs.<sup>207</sup> Charter schools typically augment per pupil revenues by obtaining grants and charitable contributions in the form of land and buildings, as well as donations from foundations, individuals, and corporations.<sup>208</sup>

### Charter School Funding in Illinois

The Illinois charter school law requires that charter schools receive between 75% and 125% of district per capita tuition. Per capita tuition is computed in each school district’s Annual Financial Report to the Illinois State Board of Education according to the following general equation:<sup>209</sup>

|   |  |
|---|--|
|   | Total Expenditures   |
| - | Revenues and Expenditures not<br>Applicable to Regular K-12 Programs |
|   | <b>Operating Expense Regular K-12</b>                                |
| - | Offsetting Revenues<br>(e.g., categorical grants, fees)              |
| + | Annual Asset Depreciation  |
|   | <b>Subtotal</b>  |
| ÷ | Average Daily Attendance   |
| = | <b>Per Capita Tuition Charge</b>                                     |

Charter school students are included in the districts’ Average Daily Attendance, which is the same figure used to calculate the districts’ General State Aid claims. Illinois’s per capita tuition calculation is not weighted for different grade levels, despite the fact that the General State Aid formula is weighted differently for elementary school, high school, and unit (K-12) districts.<sup>210</sup> The precise percentage of per capita tuition received by charter schools is negotiated between the charter and the local school board.<sup>211</sup>

<sup>207</sup> Carol Ascher et al., *The Finance Gap: Charter Schools and their Facilities* (New York: Institute for Education and Social Policy, Steinhardt School of Education at New York University, 2004), <http://www.liscnet.org/resources> and the Center for Education Reform, <http://www.edreform.com/index.cfm?fuseAction=cLaw>.

<sup>208</sup> Moody’s Investors Services. “Growth in Charter Schools Begins to Reveal Likely Impact on Traditional Public School Systems.” May 2001, p. 4.

<sup>209</sup> Annual Financial Reports are available from ISBE’s website, <http://www.isbe.state.il.us/sfms/afr/afr.htm>.

<sup>210</sup> The Illinois General State Aid formula multiplies a district’s aggregate taxable property values by 2.30% for elementary school districts, 1.05% for high school districts, and 3.00% for unit schools districts, as a way to estimate the local property taxes available to the districts. This amount, plus the Corporate Personal Property Replacement Tax, is considered to be the total Available Local Resources. For details on the General State Aid calculation, see ISBE’s website, [http://www.isbe.state.il.us/funding/pdf/gsa\\_overview.pdf](http://www.isbe.state.il.us/funding/pdf/gsa_overview.pdf).

<sup>211</sup> If the charter school is authorized directly by ISBE, ISBE is responsible for negotiating the percentage of district per pupil tuition that the charter school will receive.

In many states, including Illinois, charter schools negotiate with school districts for the provision of services such as transportation and special education. For example, an Illinois school district may transfer only 90% of its per pupil tuition to a charter school, but provide that charter school with transportation services at no charge. Charter schools also receive the proportionate amount of state and federal categorical funds for their particular student population (e.g., special needs grants and low-income grants). This funding is received by the district and passed through to the charter school.

State and federal start-up grants are available to Illinois charter schools. Illinois also has a Charter School Revolving Loan Fund that offers interest-free loans to charter schools for the purpose of acquiring and remodeling a facility or for other start-up costs, including the acquisition of supplies, textbooks, furniture, and other equipment. Charter schools are eligible for these loans during their first term of operation, and must repay the loans by the end of that term.<sup>212</sup>

There are no provisions in Illinois law that require school districts to provide charter schools either with capital funds or facilities for the school's use.

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<sup>212</sup> Illinois State Board of Education, *Illinois State Board of Education FY2010 Proposed Budget*, [http://www.isbe.net/budget/FY10\\_budget\\_book](http://www.isbe.net/budget/FY10_budget_book), p. 40. This fund has not been used very frequently by Illinois charter schools, according to ISBE's FY2010 Proposed Budget. In FY2009, of the 17 charter schools that were eligible, one of the schools applied for a loan.

## Chapter Five

### CHICAGO CHARTER SCHOOL REVENUES AND EXPENSES

This chapter presents an overview and analysis of Chicago charter school revenues and expenses in FY2007 and FY2008. It provides three different types of analyses:

1. A program expense analysis, which provides an evaluation of program-related (i.e., direct service) activities versus other activities.
2. An instructional expense analysis, which evaluates how much of a charter school's expenses are spent in the classroom on instruction-related expenses.
3. A review of charter school revenues that includes a description of funding sources, an evaluation of revenues by source and a discussion of school-based revenues.

The data for these analyses were derived from the Statements of Functional Expenses in individual charter school audited financial reports for FY2007 and FY2008 and the Chicago Public School Statement of Activities.

#### SUMMARY OF FINDINGS

The following section provides an overview of the key findings of this expense and revenue analysis of the Chicago charter schools.

##### Charter School Program Expense Analysis

The twenty Chicago charter schools reviewed spent over 80% of all expenses on program services in both FY2007 and FY2008. This is a very high percentage and indicates funds were overwhelmingly spent on direct service versus administrative and other activities.

In FY2007, the median percentage of program service spending for the charter schools was 83.0%. The proportion of total actual charter school expenses spent on programs was 86.0%. Management and general administrative expenses consumed 12.7%. Fundraising expenses accounted for the remaining 1.3%. For individual charter schools, the proportion of spending earmarked for program expenses ranged from a low of 77.5% for the Bronzeville Lighthouse charter school to a high of 96.4% for the L.E.A.R.N. charter school.

The median percentage of program service spending for the charter schools in FY2008 was 84.0%. The proportion of total actual charter school program expenses was 85.5%. Administrative expenses rose slightly from 12.7% to 13.3%. Fundraising costs fell from 1.3% to 1.2%. The proportion of spending for program services ranged from a low of 78.0% for the Chicago Virtual charter school to a high of 96.6% for the L.E.A.R.N. charter school.

## Charter School Instructional Expense Analysis

This analysis compared charter school expenses in five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. The primary purpose was to determine how much of a charter school's expenses were spent in the classroom on instruction-related expenses including teacher salaries and benefits, substitute teachers, field study and summer programs.

In FY2007, the median percentage spent on instruction for the twenty charter schools analyzed was 54.9%. An additional 10.0% was the median amount spent on pupil support services, which includes expenses for curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training. The combined median for both of these classroom related expenses was 65.1%. The median percentages for administrative support services and facilities were 16.6% and 11.7% respectively.

Total actual expenses per pupil enrolled in the twenty-one charter schools reviewed in FY2007 were \$9,660. The median amount spent was \$10,779. The percentage of total expenses made by the schools on instruction ranged from a low of 22.1% for the Chicago Virtual charter school to a high of 86.1% for the Youth Connection Charter School (YCCS).

Charter school expenses per category did not change dramatically from FY2007 to FY2008. The median percentage amount spent on each of the four major categories of spending was 54.5% for instruction, 9.2% on pupil support services, 19.6% on administrative support services and 11.1% on facilities. Combining classroom-related expenses for instruction and pupil support services as a percentage of total expenses for FY2008 yields a median of 63.3%.

Total actual expenses per pupil in FY2008 were \$10,956. This was a 13.4% increase from the FY2007 figure of \$9,660. The median amount spent was \$11,331. The percentage of total expenses spent by the schools on instruction ranged from a low of 22.6% for the Chicago Virtual charter school to a high of 84.4% for the Youth Connection Charter School (YCCS).

Chicago charter schools devoted a smaller percentage of total expenses for instruction than all CPS schools<sup>213</sup> in both years reviewed, 58.3% versus 61.5% in FY2007 and 54.8% versus 59.5% in FY2008. These statistics must be viewed cautiously and in a broader context. Instructional expenses are primarily program-related salaries and benefits. The difference between the two groups could be due to the pool of all CPS schools employing a larger percentage of teachers with longer tenure and hence higher personnel costs than charter schools. Further research is necessary to more specifically determine the reasons for the disparity.

The Chicago charter schools had higher administrative support service costs than CPS as a whole. In FY2007, charter school administrative support service expenses were 14.3% versus 8.1% for CPS. In FY2008, charter school administrative support service expenses were 16.7% versus 8.5% for the District.

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<sup>213</sup> This figure includes the charter schools.



## **Charter School Revenues<sup>214</sup>**

In FY2007, the majority of charter school revenues or 68.7% were local – that is, they were provided by or through CPS. This includes per capita tuition funds and contributed goods and services. Over 21% of revenues were school-based and 7.5% were from state sources. Federal sources accounted for 2.0% of all revenues.

In FY2008, the local percentage of all charter school revenues rose to 71.5% or \$157.1 million. School based revenues dropped to 14.8% of total revenues. State source revenues rose to 11.0% and federal were 2.2% of all revenues.

Charter schools generate “school based” or “own source” revenue by applying for and receiving grants, donations and contributions; hosting fundraising events; charging program and student fees; generating interest income; and receiving management service fees. The charter schools studied generated \$37.4 million in these revenues in FY2007 (21.1% of all revenues) and \$32.4 million in FY2008 (14.8% of all revenues). The single largest category in both years was contributions and grants, which accounted for 85.4% of all school-based revenues in FY2007 and then fell to 76.1% the following year.

## **CHICAGO CHARTER SCHOOL EXPENSES**

The following sections provide a review of Chicago charter school aggregate and individual expenses. The analysis is divided into two sections:

1. **Chicago Charter School Program Expenses.** The primary purpose of this review is to provide information on the amount and percentage that each charter school spends on program related (i.e., direct service) activities versus other activities. It reviews individual charter school expenses in three broad categories: program services; supporting services: management and supporting services: fundraising. These categories are found in the Statement of Functional Expenses in the charter school audited financial statements.
2. **Chicago Charter School Instructional Expenses.** This section provides a more detailed comparison of charter school instructional expenses by five categories: Instruction, Pupil Support Services, Administrative Support Services, Facilities and Other. This classification permits a closer look at instruction-only related expenses and permits a broad comparison with Chicago Public Schools districtwide expenses in the same categories. This information is derived from the charter school Statements of Functional Expenses and CPS Statements of Activities.

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<sup>214</sup> Complete financial data were not available for Erie charter school in FY2007. Therefore, data are presented for twenty charter schools in FY2007 and twenty-one schools the following year.

## *Chicago Charter School Program Expenses*

This section of the chapter focuses on program expenses. Information is provided for the twenty Chicago charter schools that provided consistent data in their audited financial statements for FY2007 and FY2008.<sup>215</sup>

Nonprofit organizational audited financial reports include a detailed Statement of Functional Expenses that summarizes all expenses into three broad categories: 1) Program Services, 2) Supporting Services: Management and 3) Supporting Services: Fundraising. Program services expenses are the funds a nonprofit devotes to its direct mission-related work or direct service expenses. The two types of supporting service expenses (management and fundraising) can be considered administrative expenses. These categories are calculated differently than the categories in the next section, which is focused on instructional or classroom-based expenses.

One of the most common metrics used to evaluate how much of a nonprofit organization's expenses are mission related is the program ratio, which measures the relationship between program expenses and the organization's total expenses. The calculation for the program ratio is program service expenses / total expenses. There is a caution in interpreting program ratios. In general, a higher program ratio is preferable. However, there may be good reasons for a lower ratio. Newer organizations, such as the charter schools in this study, may have a lower program ratio than older organizations because a greater amount of resources may be used for various starts up costs in initial years. These costs include expenses for facilities and infrastructure. In addition, certain services may require a greater amount of administrative support than others. But, over time, the amount of funds used for program services should increase.<sup>216</sup>

### *FY2007 Program Expenses*

In FY2007, the twenty Chicago charter schools reviewed spent \$131.9 million in program expenses, \$19.4 million for management and general expenses and \$2.0 million for fundraising. The median amount spent for programming was \$2.6 million.

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<sup>215</sup> FY2007 and FY2008 data for program expense information were derived from FY2008 Chicago charter school Statements of Functional Expenses (except for the ACE Tech and North Lawndale charter schools, where data for each year were only available in FY2007 and FY2008 Statements of Functional Expenses).

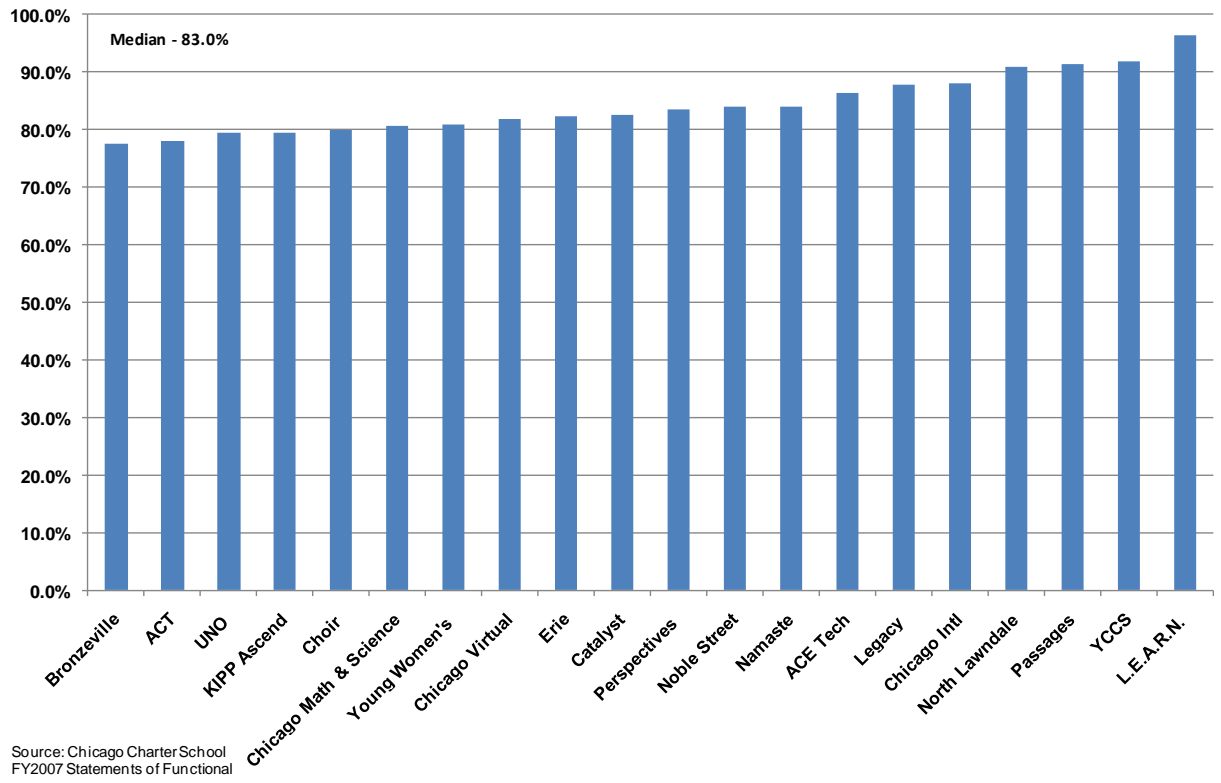
<sup>216</sup> Guidestar. "Why Ratios Aren't the Last Word," June 2004.  
<http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx>.

| <b>Chicago Charter School FY2007 Expenses by Category</b> |                         |                                 |                     |                       |
|---|-------------------------|---------------------------------|---------------------|-----------------------|
|   | <b>Program Services</b> | <b>Management &amp; General</b> | <b>Fundraising</b>  | <b>Total</b>          |
| ACT   | \$ 2,629,181            | \$ 635,478                      | \$ 106,083          | \$ 3,370,742          |
| ACE Tech  | \$ 3,102,613            | \$ 398,808                      | \$ 86,721           | \$ 3,588,142          |
| Bronzeville   | \$ 2,091,400            | \$ 607,073                      | \$ -                | \$ 2,698,473          |
| Catalyst  | \$ 1,365,279            | \$ 147,085                      | \$ 141,318          | \$ 1,653,682          |
| Chicago Intl  | \$ 41,929,098           | \$ 5,447,970                    | \$ 285,556          | \$ 47,662,624         |
| Chicago Math & Science                                    | \$ 2,537,874            | \$ 583,107                      | \$ 25,573           | \$ 3,146,554          |
| Chicago Virtual   | \$ 1,647,831            | \$ 367,759                      | \$ -                | \$ 2,015,590          |
| Choir   | \$ 1,602,944            | \$ 376,477                      | \$ 25,940           | \$ 2,005,361          |
| Erie  | \$ 1,352,673            | \$ 230,824                      | \$ 58,138           | \$ 1,641,635          |
| KIPP Ascend   | \$ 2,659,268            | \$ 546,748                      | \$ 139,304          | \$ 3,345,320          |
| L.E.A.R.N.  | \$ 2,989,678            | \$ 41,579                       | \$ 71,307           | \$ 3,102,564          |
| Legacy  | \$ 2,101,509            | \$ 228,733                      | \$ 65,648           | \$ 2,395,890          |
| Namaste   | \$ 1,802,072            | \$ 254,985                      | \$ 90,928           | \$ 2,147,985          |
| Noble Street  | \$ 12,346,885           | \$ 2,243,690                    | \$ 127,917          | \$ 14,718,492         |
| North Lawndale  | \$ 4,398,964            | \$ 329,130                      | \$ 109,711          | \$ 4,837,805          |
| Passages  | \$ 1,904,733            | \$ 180,000                      | \$ -                | \$ 2,084,733          |
| Perspectives  | \$ 8,895,723            | \$ 1,377,691                    | \$ 384,691          | \$ 10,658,105         |
| UNO   | \$ 11,597,157           | \$ 2,974,752                    | \$ 42,534           | \$ 14,614,443         |
| Young Women's   | \$ 3,740,038            | \$ 626,729                      | \$ 251,587          | \$ 4,618,354          |
| YCCS  | \$ 21,212,314           | \$ 1,864,892                    | \$ -                | \$ 23,077,206         |
| <b>Total</b>  | <b>\$ 131,907,234</b>   | <b>\$ 19,463,510</b>            | <b>\$ 2,012,956</b> | <b>\$ 153,383,700</b> |
| <b>Median</b>   | <b>\$ 2,644,225</b>     | <b>\$ 472,778</b>               | <b>\$ 79,014</b>    | <b>\$ 3,245,937</b>   |

Source: Chicago charter school FY2007 Statements of Functional Expenses.

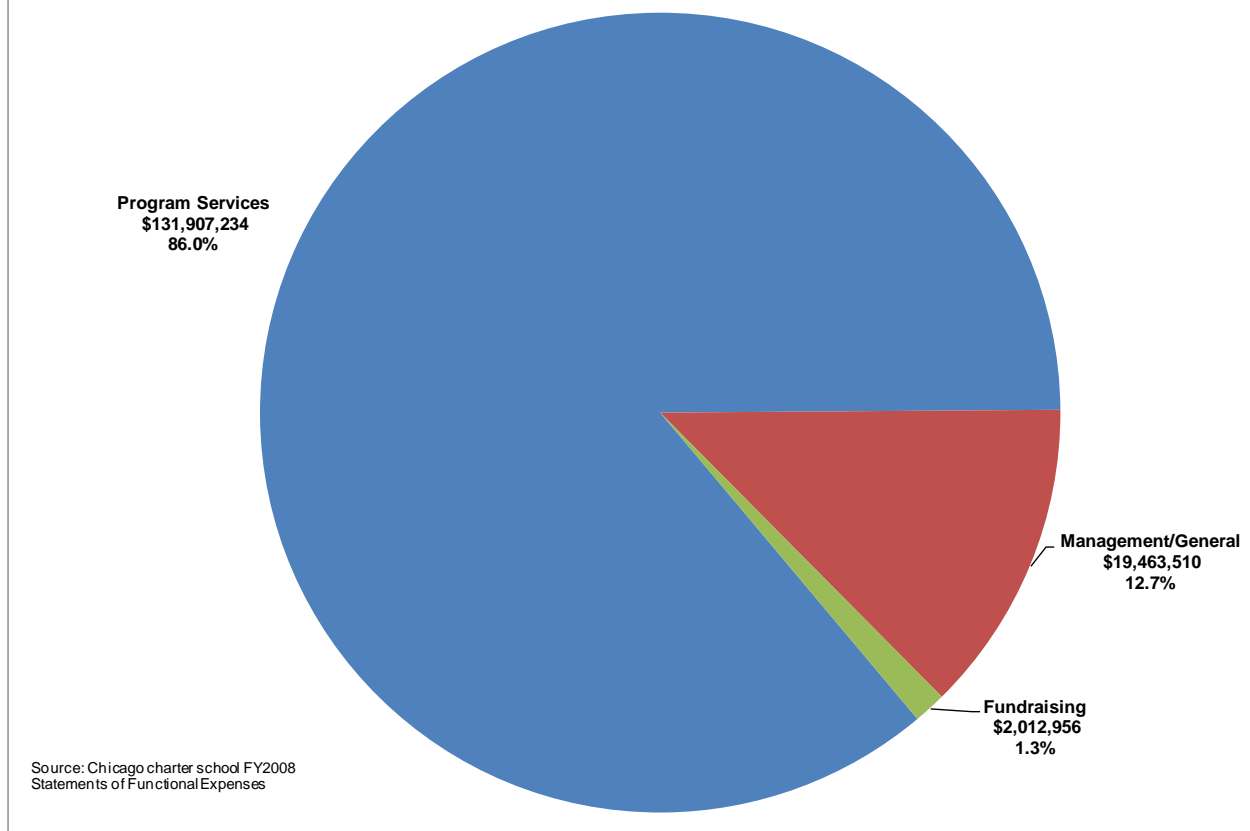
For individual charter schools, program expenses ranged from a low of 77.5% of total expenses for the Bronzeville Lighthouse charter school to a high of 96.4% for the L.E.A.R.N. charter school. The median program expense percentage was 83.0%.

### FY2007 Program Expenses as a Percent of Total Expenses for Chicago Charter Schools



The proportion of total charter school expenses spent on programs was 86.0% in FY2007. This is a very high percentage, indicating that the vast majority of charter school resources were devoted to direct service expenses. Management and general administrative expenses consumed 12.7%. Fundraising expenses accounted for the remaining 1.3%.

### Chicago Charter School FY2007 Program Expenses



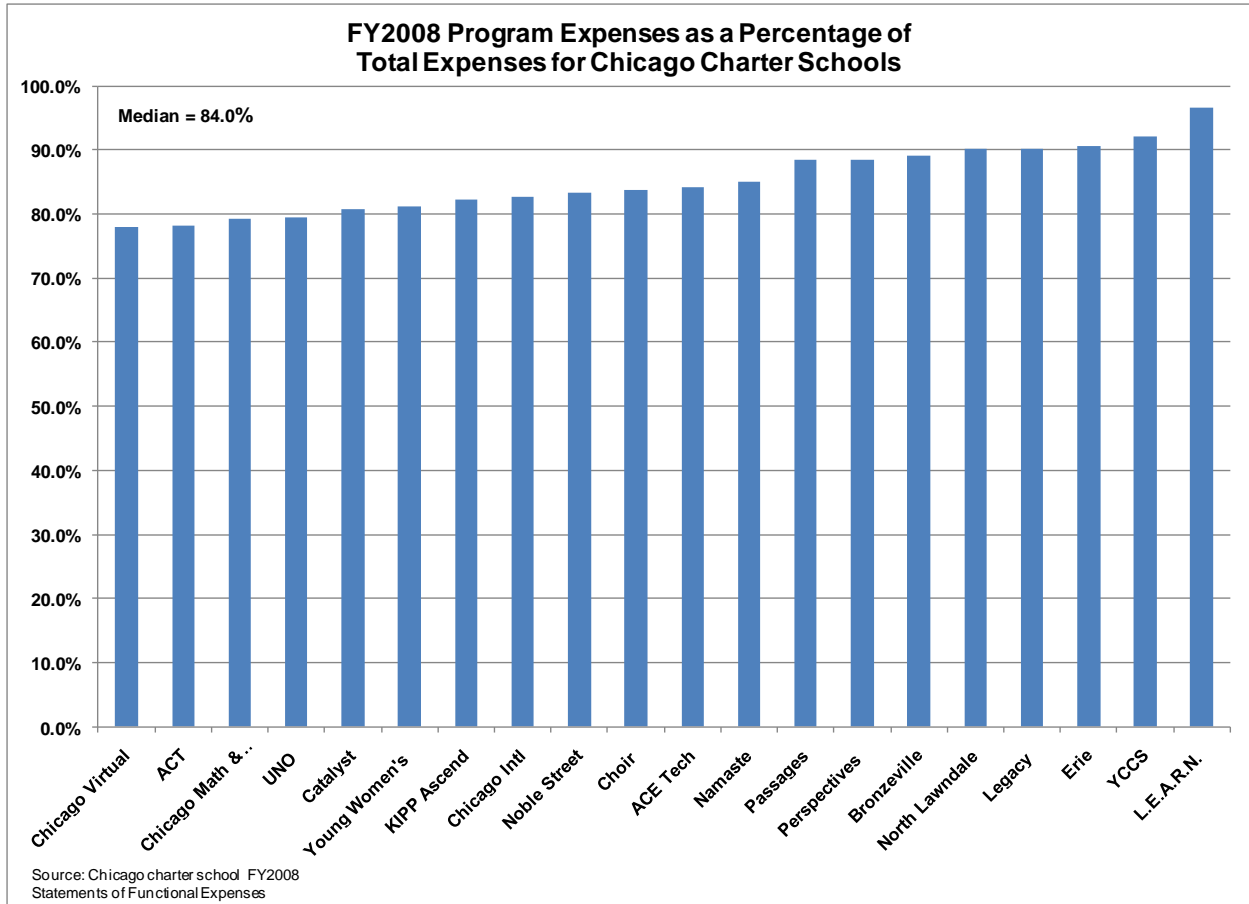
In the following year, a total of \$176.5 million was spent on charter school program expenses. This was a 33.8% increase from the FY2007 amount of \$131.9 million. Some of the expense increase is likely due to the expansion of grades in eight of the twenty schools reviewed.<sup>217</sup> The median amount spent was \$3.3 million, up 26.1% from the \$2.6 million in the prior year.

<sup>217</sup> The eight charter schools that increased grades were Bronzeville Lighthouse, Catalyst, Chicago Virtual, Choir, Erie, Legacy, Namaste and UNO. Information was found in the Chicago Public Schools. *Charter Schools Performance Reports* for 2006-2007 and 2007-2008.

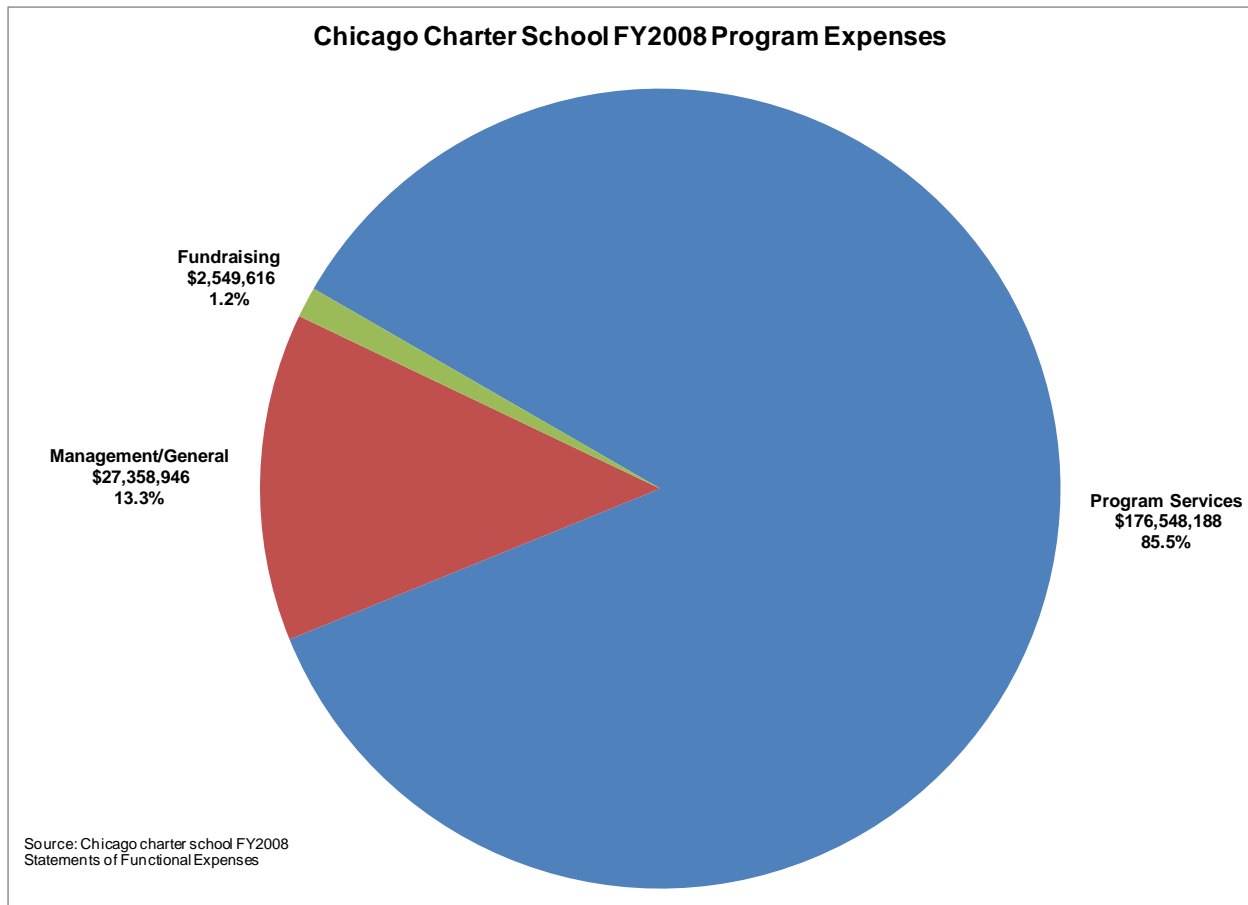
| <b>Chicago Charter School FY2008 Expenses by Category</b> |                         |                                 |                     |                       |
|---|-------------------------|---------------------------------|---------------------|-----------------------|
|   | <b>Program Services</b> | <b>Management &amp; General</b> | <b>Fundraising</b>  | <b>Total</b>          |
| ACT   | \$ 3,167,170            | \$ 756,304                      | \$ 126,904          | \$ 4,050,378          |
| ACE Tech  | \$ 4,229,973            | \$ 668,909                      | \$ 125,362          | \$ 5,024,244          |
| Bronzeville   | \$ 2,647,885            | \$ 326,243                      | \$ -                | \$ 2,974,128          |
| Catalyst  | \$ 3,869,762            | \$ 431,201                      | \$ 493,209          | \$ 4,794,172          |
| Chicago Intl  | \$ 46,961,243           | \$ 9,654,497                    | \$ 211,652          | \$ 56,827,392         |
| Chicago Math & Science                                    | \$ 2,882,020            | \$ 675,777                      | \$ 77,602           | \$ 3,635,399          |
| Chicago Virtual   | \$ 2,378,156            | \$ 672,451                      | \$ -                | \$ 3,050,607          |
| Choir   | \$ 1,318,714            | \$ 238,502                      | \$ 16,300           | \$ 1,573,516          |
| Erie  | \$ 1,949,325            | \$ 169,138                      | \$ 34,015           | \$ 2,152,478          |
| KIPP Ascend   | \$ 2,980,955            | \$ 468,221                      | \$ 171,449          | \$ 3,620,625          |
| L.E.A.R.N.  | \$ 3,501,760            | \$ 33,894                       | \$ 90,537           | \$ 3,626,191          |
| Legacy  | \$ 2,762,695            | \$ 206,359                      | \$ 93,553           | \$ 3,062,607          |
| Namaste   | \$ 2,249,120            | \$ 276,547                      | \$ 118,548          | \$ 2,644,215          |
| Noble Street  | \$ 20,336,756           | \$ 3,961,685                    | \$ 136,394          | \$ 24,434,835         |
| North Lawndale  | \$ 5,833,772            | \$ 447,487                      | \$ 191,365          | \$ 6,472,624          |
| Passages  | \$ 2,419,525            | \$ 316,663                      | \$ -                | \$ 2,736,188          |
| Perspectives  | \$ 16,695,856           | \$ 1,817,406                    | \$ 361,127          | \$ 18,874,389         |
| UNO   | \$ 21,010,505           | \$ 3,422,426                    | \$ 52,394           | \$ 24,485,325         |
| Young Women's   | \$ 3,890,665            | \$ 652,421                      | \$ 249,205          | \$ 4,792,291          |
| YCCS  | \$ 25,462,331           | \$ 2,162,815                    | \$ -                | \$ 27,625,146         |
| <b>Total</b>  | <b>\$ 176,548,188</b>   | <b>\$ 27,358,946</b>            | <b>\$ 2,549,616</b> | <b>\$ 206,456,750</b> |
| <b>Median</b>   | <b>\$ 3,334,465</b>     | <b>\$ 560,321</b>               | <b>\$ 106,051</b>   | <b>\$ 3,842,889</b>   |

Source: Chicago charter school FY2008 Statements of Functional Expenses.

In FY2008, the median percentage of program services as a percentage of all expenses for the twenty Chicago charter schools studied was 84.0%. The percentages ranged from a low of 78.0% for the Chicago Virtual charter school to a high of 96.6% for the L.E.A.R.N. charter school.



Program expenses accounted for roughly the same percentage of all expenses in FY2008 as in FY2007, or 85.5%. Administrative expenses for management and general activities rose slightly from 12.7% to 13.3%. Fundraising costs fell from 1.3% to 1.2%.



### *Chicago Charter School Instructional Expenses*

This analysis focuses on Chicago charter school instructional expenses versus other expenses. It is much more detailed than the program expense analysis and permits a general comparison with CPS categories because the charter schools and CPS both present this information in their audited financial statements. For this analysis, expenses are divided into five broad categories based on the categories in the Chicago Public Schools Statement of Activities:<sup>218</sup>

1. **Instruction.** Instruction includes teacher instruction and fringe benefits.
2. **Pupil Support Services.** Pupil support services and instructional support services are included in this category.

<sup>218</sup> Chicago Public Schools *FY2007 Comprehensive Annual Financial Report*, Statement of Activities, p. 35. There is a sixth category of “Debt Service” in the CPS Statement of Activities which includes principal and interest expenses. However, the individual charter school Statements of Functional Expenses and Statements of Activities only report interest, so the category is not included in this analysis as it is not comparable. (Note that the FY2007 CPS Comprehensive Annual Financial Reports’ statement of Revenues, Expenditures and changes in Net Fund Balances does include a line for debt service on p. 38).



3. **Administrative Support Services.** This category encompasses administrative support services (including administrative salaries and benefits), food services and community services.
4. **Facilities.** This category includes facilities support services and capital outlay.
5. **Other.** “Other” includes interest expense and other expenses.

For purposes of analyzing charter school expenses, the numerous spending categories found in charter school FY2007 and FY2008 Statements of Financial Activities were organized into categories that attempted to correspond to the CPS categories described above.

1. **Instruction.** Expenses related to instruction, including teacher salaries and benefits, substitute teachers, field study and summer programs.
2. **Pupil Support Services.** Expenses for pupil and instructional support, including curriculum development, classroom supplies, contributed goods and services, extracurricular activities, library books and supplies, special or student activities, textbooks, testing and teacher training.
3. **Administrative Support Services.** Expenses for administrative support services. These included employee salaries and benefits related to administrative functions, administration, commodities, contributed goods and services for computers or food service, development, food costs, management fees, marketing, office supplies, postage and printing, security and travel.
4. **Facilities.** Expenses related to maintenance of school buildings and infrastructure. This includes expenses for building trades, janitorial, rent, facility maintenance, repairs, technology and communications.
5. **Other.** These expenses include those that do not fit into the other categories such as bad debts, community schools, interest expense, licensing, miscellaneous and other.

There is no standardization of line items in the individual charter school Statements of Functional Expenses. Each reports fiscal information according to its own categorization scheme. However, there are many common and similar line items. We have organized the various line items into categories roughly corresponding to the CPS categories found in the District’s Statement of Activities. While not exact, our classification system, shown in the following exhibit, provides a reasonable basis for general comparisons between CPS and charter school expenses and among the individual charter schools.

| CHICAGO CHARTER SCHOOL EXPENSES CATEGORIES                         |  |  |  |                   |
|--|--|--|--|-------------------|
| INSTRUCTION  | SUPPORT SERVICES   | ADMINISTRATION   | FACILITIES                                   | OTHER             |
| Instruction & Pension  | Pupil & Instructional Support Services                         | Administrative Support Services; Food Services; Community Services | Facilities Support Services & Capital Outlay | Other             |
| Instruction Line Items   | Pupil Support Service Line Items                               | Administrative Support Services Line Items                         | Facilities Line Items                        | Other Line Items  |
| Salaries - program services  | Academic services - Lighthouse Academies                       | Accountability program   | Building trades                              | Bad debt          |
| Employee Benefits and payroll taxes - program services             | Athletics  | Administrative,accounting, technology                              | Business owners                              | Community schools |
| Salaries and Benefits - program services                           | Bilingual Education  | Advertising  | Contributed goods and services - rent        | Interest Expense  |
| Contributed services - substitute & other wages - program services | Character building program                                     | Auto expense   | Equipment rental and maintenance             | Licensing         |
| Payroll taxes - program services                                   | Classroom supplies/curriculum materials/science lab            | Bank fees  | Facility maintenance                         | Miscellaneous     |
| Contributed services - personnel                                   | Classroom,kitchen,office supplies                              | Commodities  | Gymnasium rental                             | Other             |
| Pension - program services   | College and career services                                    | Conferences  | Insurance                                    |                   |
| Workers compensation insurance - program services                  | Computer and telecommunications                                | Contributed goods and services - Computers                         | IT support                                   |                   |
| Extended day   | Contracted services  | Contributed goods and services - food service                      | Janitorial                                   |                   |
| Evaluation services  | Contracted services/consulting                                 | Contributed services - substitute & other wages - support services | Maintenance and repairs                      |                   |
| Field study  | Contributed goods and services                                 | Development  | Non capitalizable equipment                  |                   |
| Instruction - program services                                     | Contributed goods and services - Specialized services          | Dues and subscriptions   | Occupancy                                    |                   |
| Summer program   | Contributed goods and services - Supporting services           | Employee Benefits and payroll taxes - support services             | Office expense                               |                   |
| Substitute teachers  | Contributed goods and services- concept schools                | Food costs   | Real estate taxes                            |                   |
|  | Curriculum area supplies                                       | Graduation   | Rent   |                   |
|  | Curriculum development   | Grant expense  | Rent,utilities and maintenance               |                   |
|  | Educational materials  | Instruction -support services                                      | Technology/communications                    |                   |
|  | Events   | Management fees  | Telephone, internet, network support         |                   |
|  | Extracurricular activities/field trips/after school activities | Marketing  | Utilities                                    |                   |
|  | Instructional equipment/materials                              | Meals and Entertainment  |  |                   |
|  | Language heritage program                                      | Moving and transportation  |  |                   |
|  | Library books and supplies                                     | Noncapital operations and maintenance                              |  |                   |
|  | Music instruction  | Office supplies  |  |                   |
|  | New school development   | Outside services   |  |                   |
|  | Professional Services  | Payroll processing   |  |                   |
|  | Renaissance/extra curriculars                                  | Payroll taxes - support services                                   |  |                   |
|  | Special activities   | Pension - support services   |  |                   |
|  | Student Activities/cultural-educ events                        | Performance incentive fee  |  |                   |
|  | Student support services                                       | Postage  |  |                   |
|  | Student testing  | Printing   |  |                   |
|  | Textbooks  | Professional Development/fees                                      |  |                   |
|  | Training and development                                       | Promotion/Recruitment  |  |                   |
|  |  | Property and textbook rental                                       |  |                   |
|  |  | Salaries and Benefits - support services                           |  |                   |
|  |  | Salaries-Support   |  |                   |
|  |  | School lunch program   |  |                   |
|  |  | Security   |  |                   |
|  |  | Staff development  |  |                   |
|  |  | Student fundraisers  |  |                   |
|  |  | Supplies   |  |                   |
|  |  | Travel and entertainment/transportation                            |  |                   |
|  |  | Uniforms   |  |                   |
|  |  | Workers compensation insurance - support services                  |  |                   |

Source: Chicago charter school Statements of Functional Expenses.

### *Chicago Charter School Expenses*

The next exhibit shows spending by category for all of the twenty-one charter schools reporting expense data in a Statements of Functional Expenses both FY2007 and FY2008.<sup>219</sup> Overall, they spent \$160.9 million in FY2007. This amount rose to \$214.8 million in the following year, a 33.5% increase. In this two-year period, expenses for the largest category, instruction, rose from \$93.8 million to \$117.7 million. This was a 25.4% increase.

| <b>Chicago Charter School Expenses: FY2007 and FY2008</b> |                       |                       |                      |                 |
|---|-----------------------|-----------------------|----------------------|-----------------|
|   | <b>FY2007</b>         | <b>FY2008</b>         | <b>\$ Change</b>     | <b>% Change</b> |
| Instruction   | \$ 93,874,473         | \$ 117,733,354        | \$ 23,858,881        | 25.4%           |
| Administrative Support Services                           | \$ 22,972,164         | \$ 35,958,381         | \$ 12,986,217        | 56.5%           |
| Facilities  | \$ 18,695,089         | \$ 22,988,904         | \$ 4,293,815         | 23.0%           |
| Pupil Support Services                                    | \$ 14,936,300         | \$ 19,630,472         | \$ 4,694,172         | 31.4%           |
| Depreciation & Amortization                               | \$ 4,347,559          | \$ 8,993,798          | \$ 4,646,239         | 106.9%          |
| Other   | \$ 6,075,431          | \$ 7,574,987          | \$ 1,499,556         | 24.7%           |
| <b>Grand Total</b>  | <b>\$ 160,901,016</b> | <b>\$ 214,817,743</b> | <b>\$ 53,916,727</b> | <b>33.5%</b>    |

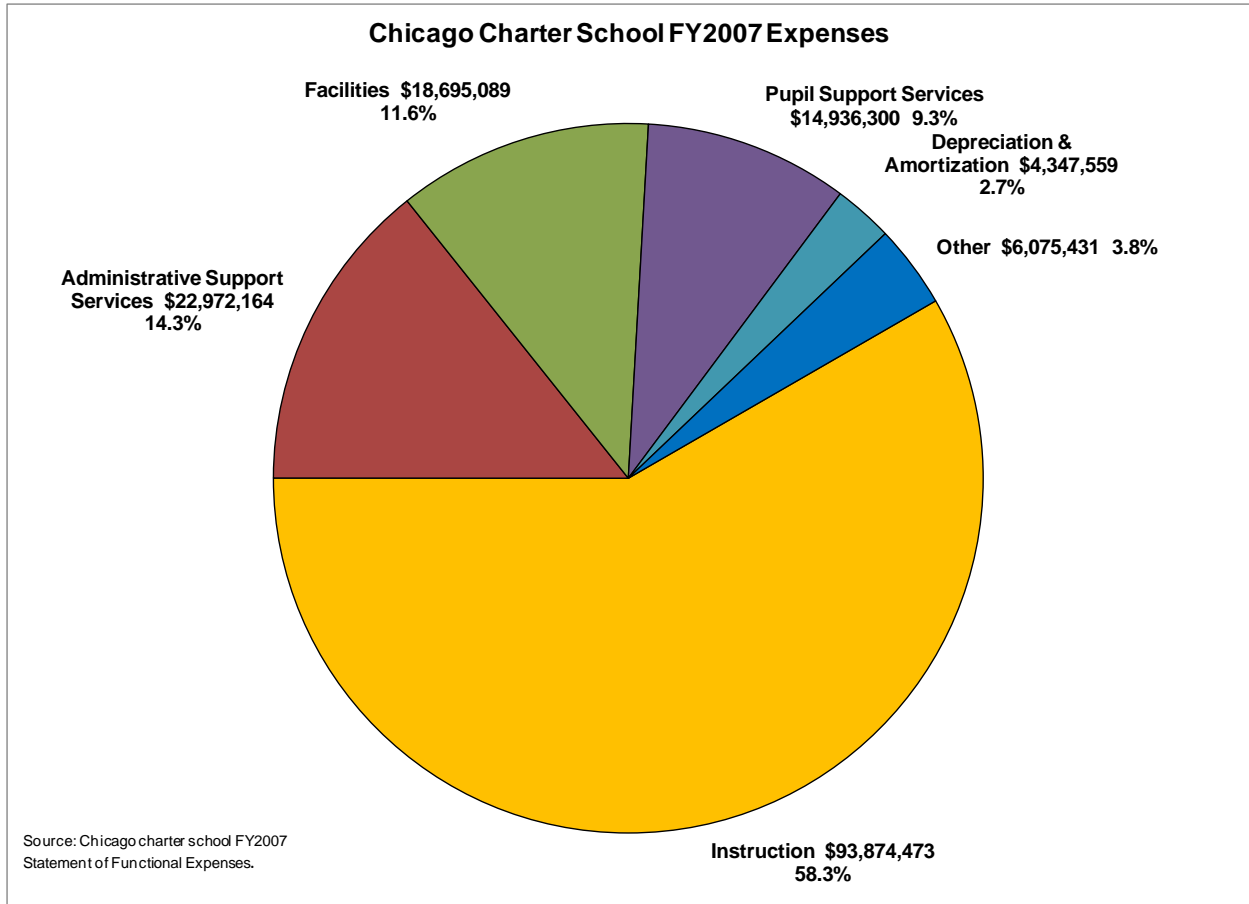
Excludes data for Polaris charter school as data only available for FY2008.

Source: Chicago charter school FY2007 and FY2008 Statements of Functional Expenses.

### *Chicago Charter School FY2007 Expenses*

In FY2007, instructional expenses were the largest spending category at 58.3% of all charter school expenses. Administrative support services was the second largest category, with 14.3% of all expenses. Facilities, pupil support services and depreciation and amortization expenses consumed the remaining 27.4%

<sup>219</sup> The Statement of Functional Expenses provides detailed information by functional class in a matrix format. It is required by the Financial Accounting Standards Board for all voluntary health and welfare organizations. This statement breaks out the information also found in the Statement of Activities in greater detail. See Steven A Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations* (Prentice-Hall, Inc., Upper Saddle River, NJ, 2001), p. 563.



*FY2007 Charter School Per Pupil Expenses by School*

In FY2007, total expenses per pupil enrolled in the twenty-one charter schools reviewed were \$9,660. The median amount was \$10,779. The median percentage amounts spent on the five categories of spending were:

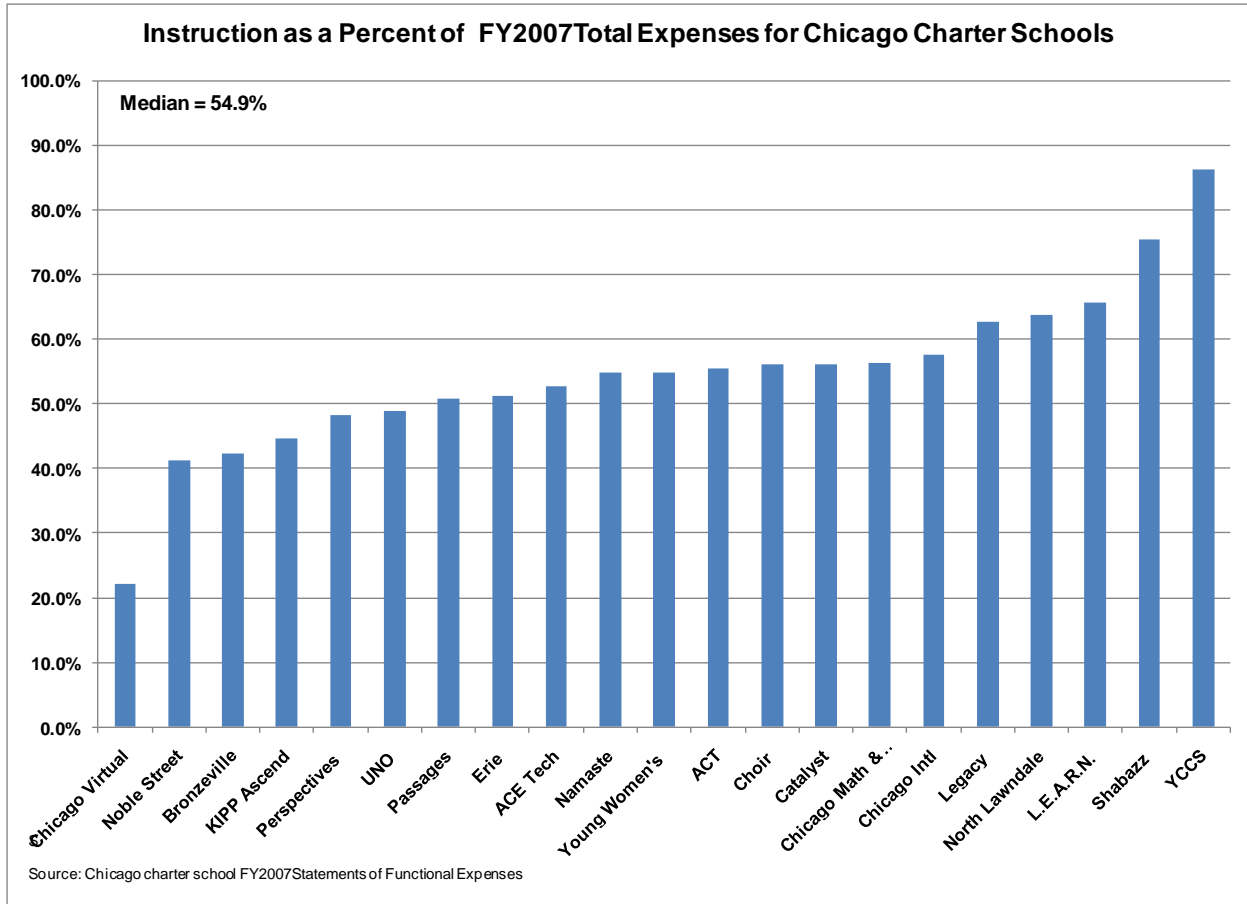
- 54.9% for instruction;
- 10.0% on pupil support services;
- 16.6% on administrative support services;
- 11.7% on facilities; and
- 4.6% on other.

| <b>Chicago Charter School FY2007 Per Pupil Expenses by Category</b> |                                 |                               |  |   |                              |                         |
|---|---------------------------------|-------------------------------|--|---|------------------------------|-------------------------|
| <b>Charter School</b>   | <b>Total Per Pupil Expenses</b> | <b>Instruction % of Total</b> | <b>Pupil Support Services % of Total</b> | <b>Administrative Support Services % of Total</b> | <b>Facilities % of Total</b> | <b>Other % of Total</b> |
| ACT   | \$ 10,944                       | 55.4%                         | 5.7%                                     | 24.2%   | 8.6%                         | 6.0%                    |
| ACE Tech  | \$ 9,518                        | 52.7%                         | 10.0%                                    | 20.2%   | 7.9%                         | 9.3%                    |
| Bronzeville   | \$ 8,433                        | 42.2%                         | 35.2%                                    | 9.9%  | 11.7%                        | 1.0%                    |
| Catalyst  | \$ 13,781                       | 56.2%                         | 8.6%                                     | 18.8%   | 11.7%                        | 4.6%                    |
| Chicago Intl  | \$ 8,352                        | 57.6%                         | 7.6%                                     | 14.8%   | 8.5%                         | 11.6%                   |
| Chicago Math & Science  | \$ 8,413                        | 56.2%                         | 7.2%                                     | 16.9%   | 16.9%                        | 2.7%                    |
| Chicago Virtual   | \$ 10,779                       | 22.1%                         | 42.4%                                    | 17.2%   | 17.9%                        | 0.5%                    |
| Choir   | \$ 10,179                       | 56.0%                         | 12.0%                                    | 12.5%   | 12.6%                        | 6.7%                    |
| Erie  | \$ 12,926                       | 51.3%                         | 19.8%                                    | 16.6%   | 8.6%                         | 3.7%                    |
| KIPP Ascend   | \$ 10,968                       | 44.6%                         | 9.3%                                     | 26.2%   | 18.4%                        | 1.4%                    |
| L.E.A.R.N.  | \$ 8,864                        | 65.6%                         | 5.4%                                     | 6.7%  | 7.3%                         | 15.1%                   |
| Legacy  | \$ 11,196                       | 62.6%                         | 4.1%                                     | 14.7%   | 14.3%                        | 4.4%                    |
| Namaste   | \$ 11,072                       | 54.7%                         | 10.9%                                    | 11.7%   | 10.4%                        | 12.3%                   |
| Noble Street  | \$ 19,392                       | 41.3%                         | 13.9%                                    | 16.9%   | 21.8%                        | 6.0%                    |
| North Lawndale  | \$ 12,064                       | 63.7%                         | 15.5%                                    | 9.4%  | 5.5%                         | 5.9%                    |
| Passages  | \$ 8,947                        | 50.8%                         | 10.4%                                    | 18.7%   | 16.5%                        | 3.6%                    |
| Perspectives  | \$ 16,972                       | 48.2%                         | 12.6%                                    | 19.2%   | 15.0%                        | 5.0%                    |
| Shabazz   | \$ 8,467                        | 75.5%                         | 7.5%                                     | 4.6%  | 12.1%                        | 0.4%                    |
| UNO   | \$ 8,215                        | 48.8%                         | 7.7%                                     | 14.5%   | 26.0%                        | 3.1%                    |
| Young Women's   | \$ 13,465                       | 54.9%                         | 15.7%                                    | 19.6%   | 3.9%                         | 5.9%                    |
| YCCS*   | \$ 8,120                        | 86.1%                         | 2.0%                                     | 7.5%  | 2.8%                         | 1.5%                    |
| <b>Total</b>  | <b>\$ 9,660</b>                 | <b>58.3%</b>                  | <b>9.3%</b>                              | <b>14.3%</b>                                      | <b>11.6%</b>                 | <b>6.5%</b>             |
| <b>Median</b>   | <b>\$ 10,779</b>                | <b>54.9%</b>                  | <b>10.0%</b>                             | <b>16.6%</b>                                      | <b>11.7%</b>                 | <b>4.6%</b>             |

Source: Chicago charter school FY2007 Statements of Functional Expenses.

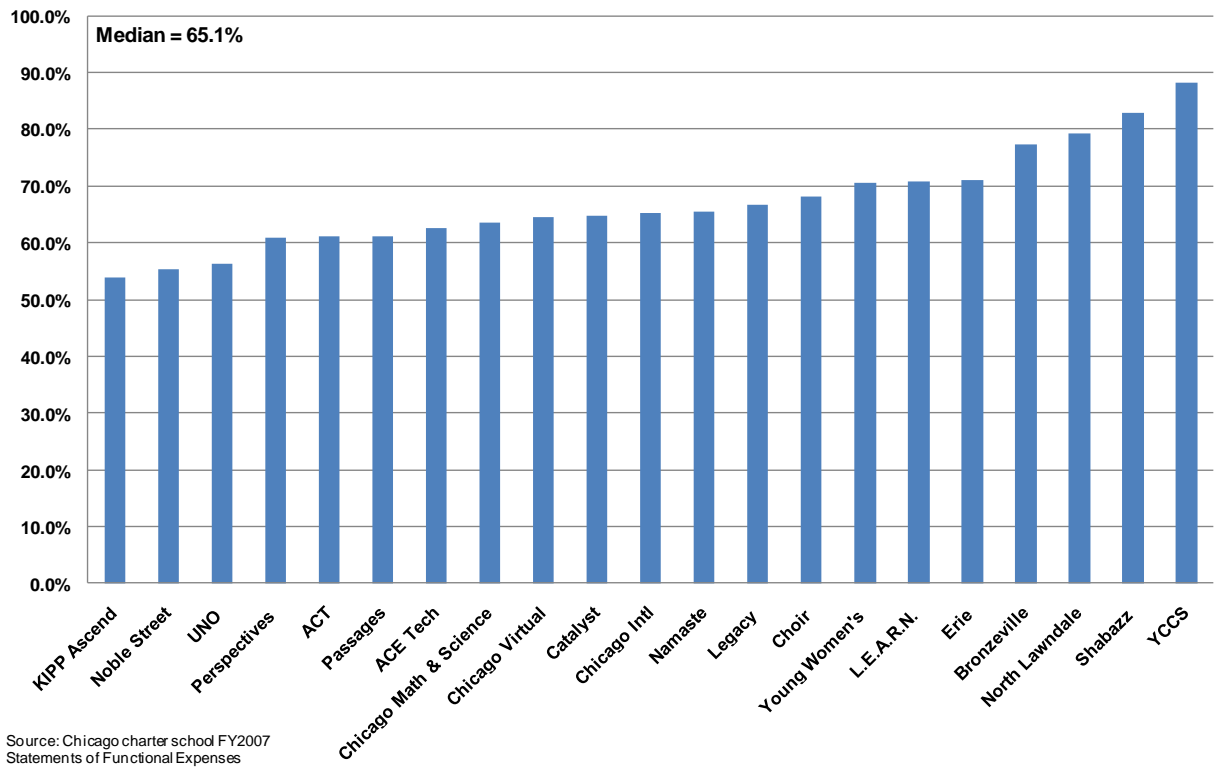
\* The enrollment figure is for 2008; 2007 figure was not available. Instruction expenses include payments to Campus Partners.

The next exhibit shows how much each of the twenty-one charter schools reviewed spent on instruction. It ranged from a low of 22.1% for the Chicago Virtual charter school to a high of 86.1% for the Youth Connection Charter School (YCCS). The median percentage spent on instruction as a percent of total expenses was 54.9%.

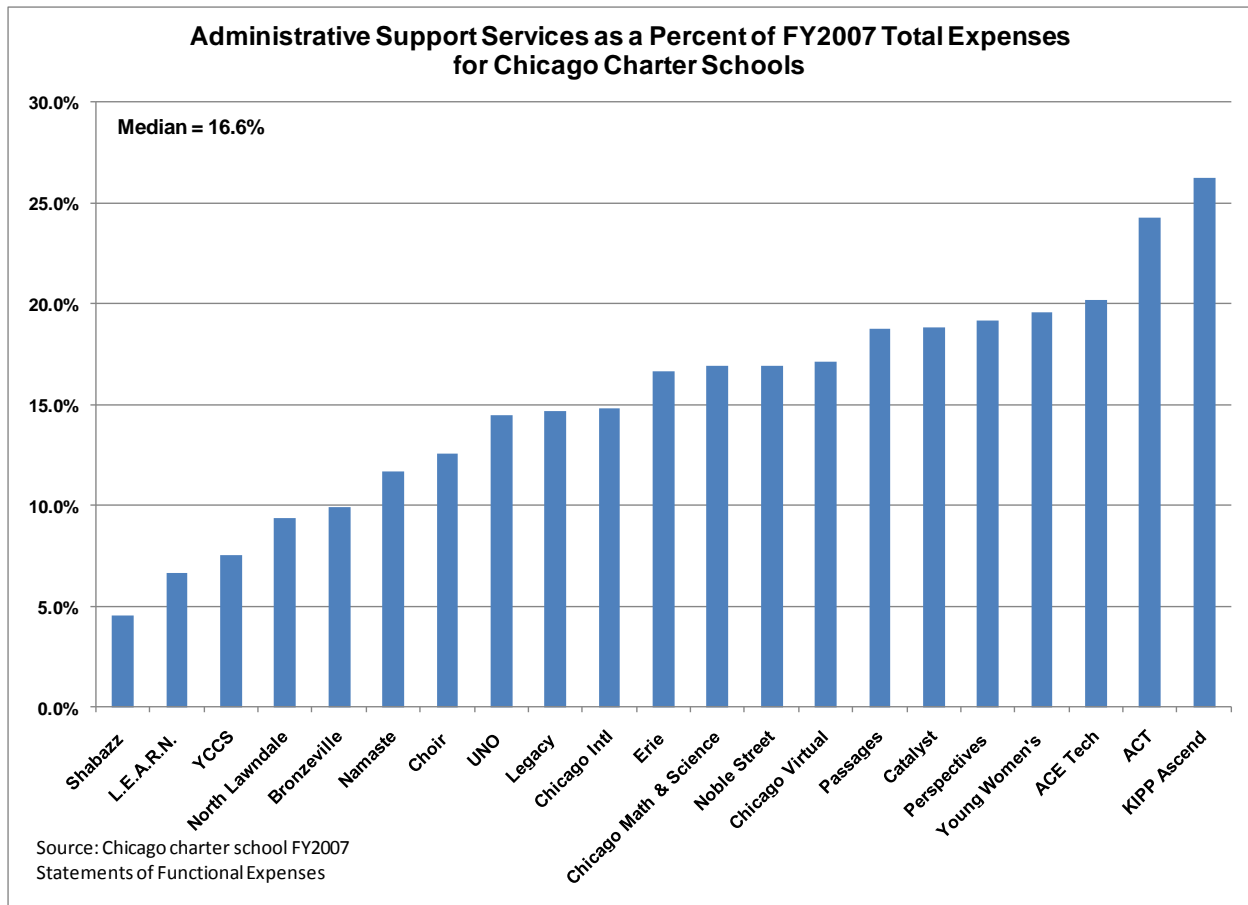


The next exhibit shows combined expenses for instruction and pupil support services as a percentage of total expenses for FY2007. The two categories are combined here to provide an overview of classroom-related or education-related expenses. The median percent of instruction plus pupil support service expenses for the twenty-one Chicago charter schools was 65.1%. The range varied from a low of 53.9% for KIPP Ascend charter school to a high of 88.1% for the Youth Connection Charter School (YCCS).

**Instruction and Pupil Support Services as a Percent of  
FY2007 Total Expenses for Chicago Charter Schools**



The median percent of expenses used for administrative support services in FY2007 was 16.6%. The percentages for individual charter schools ranged from a low of 4.6% for the Betty Shabazz International charter school to a high of 26.2% for the KIPP Ascend charter school.



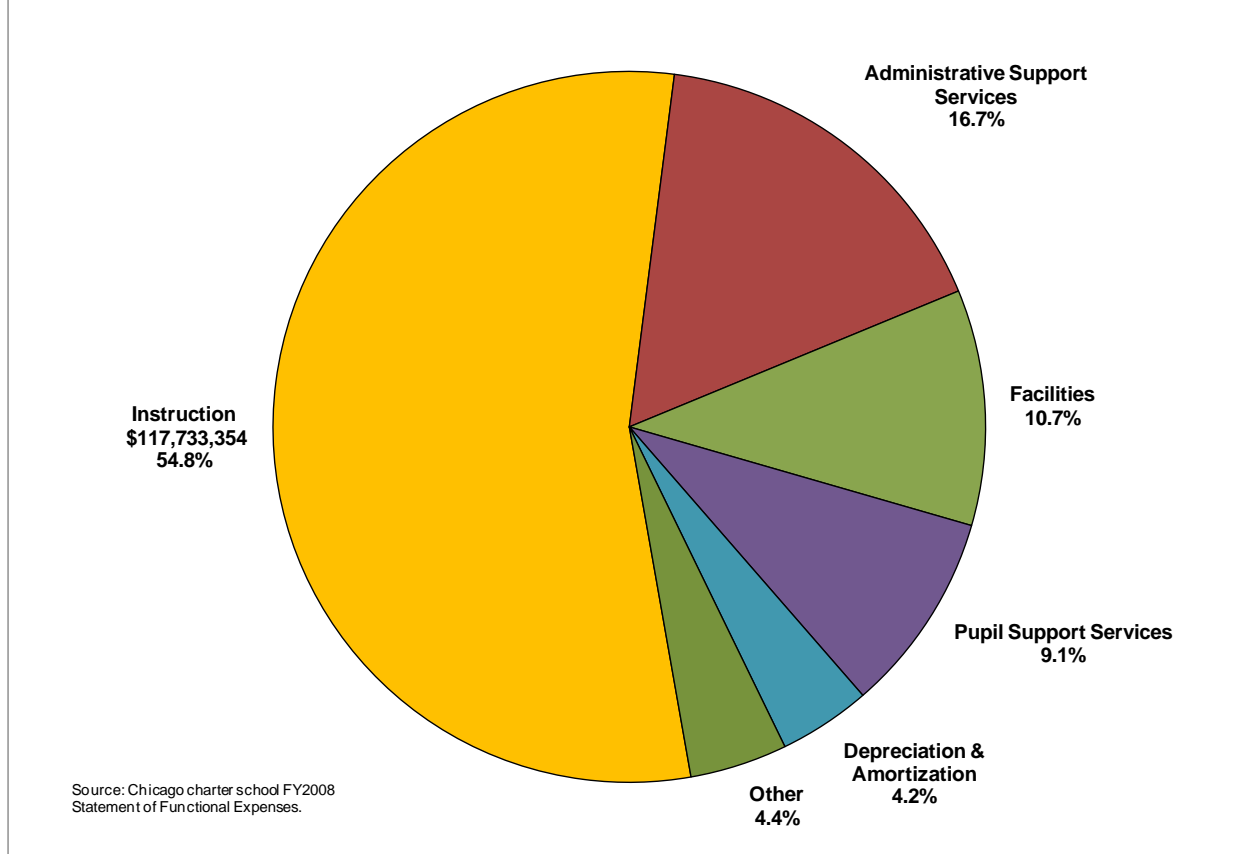
### *Chicago Charter School FY2008 Expenses*

Charter school expenses per category did not change dramatically in FY2008.

- Expenses for instruction fell from 59.2% of the total in FY2007 to 54.8%;
- The proportion of administrative expenses rose slightly from 14.4% to 16.7%;
- Facilities expenses dropped from 11.8% to 10.7%;
- The amount spent on pupil support services fell slightly from 9.4% to 9.1%;
- Depreciation and amortization expense rose from 2.7% to 4.2% ; and
- Expenses in the other category rose from 2.4% to 4.4%.



### Chicago Charter School Expenses: FY2008



#### *FY2008 Charter School Expenses Per Pupil by School*

Total expenses per pupil in FY2008 for the twenty-one Chicago charter schools reviewed was \$10,956. This was a 13.4% increase from the FY2007 figure of \$9,660. The median amount spent was \$11,331. The **median percentage** amounts spent on each of the five categories of spending were:

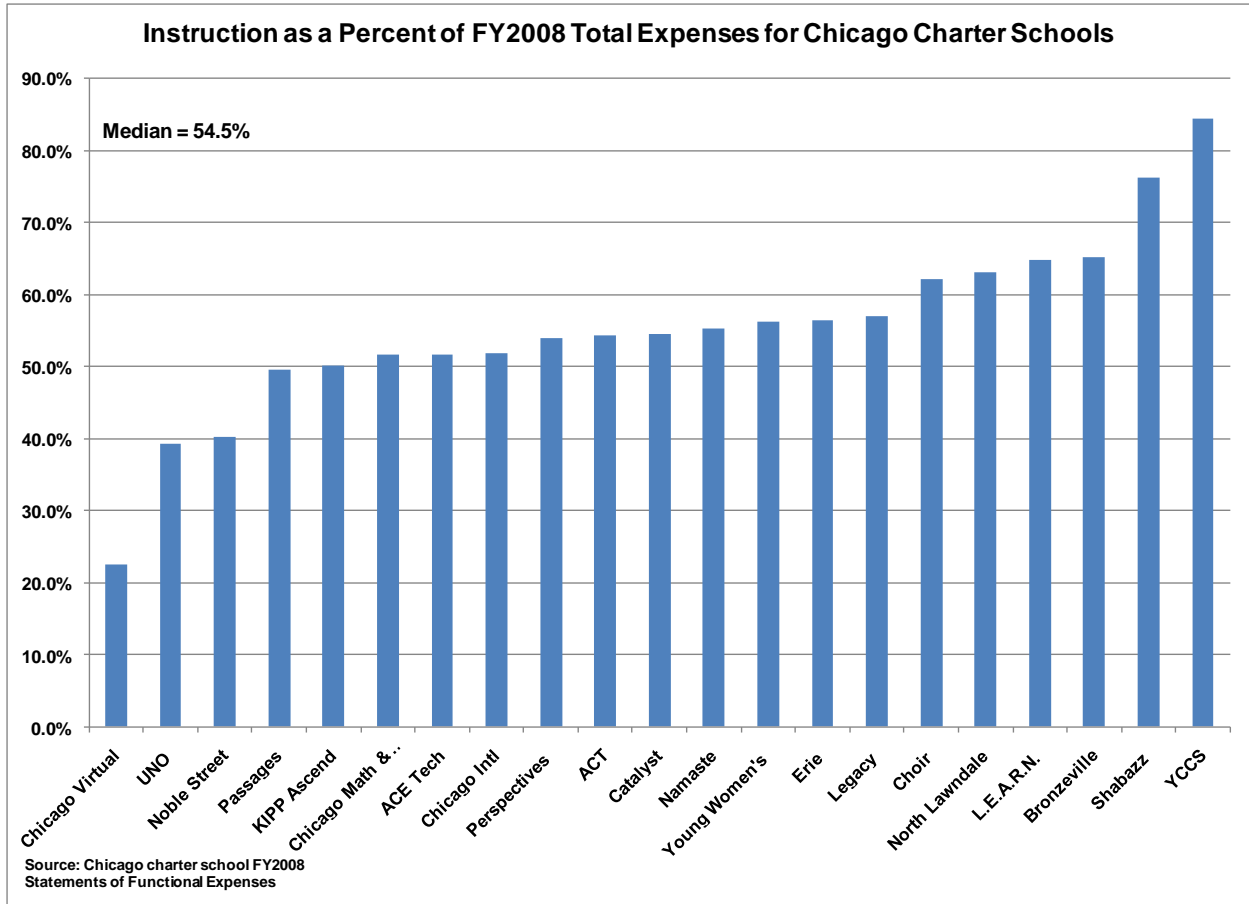
- 54.5% for instruction;
- 9.2% on pupil support services;
- 19.6% on administrative support services;
- 11.1% on facilities; and
- 5.0% on “other.”

| <b>Chicago Charter School FY2008 Per Pupil Expenses by Category</b> |                                 |                               |  |   |                              |                         |
|---|---------------------------------|-------------------------------|--|---|------------------------------|-------------------------|
| <b>Charter School</b>   | <b>Total Per Pupil Expenses</b> | <b>Instruction % of Total</b> | <b>Pupil Support Services % of Total</b> | <b>Administrative Support Services % of Total</b> | <b>Facilities % of Total</b> | <b>Other % of Total</b> |
| ACT   | \$ 12,463                       | 54.3%                         | 6.0%                                     | 24.5%   | 11.1%                        | 4.1%                    |
| ACE Tech  | \$ 10,875                       | 51.7%                         | 11.3%                                    | 23.1%   | 11.2%                        | 2.6%                    |
| Bronzeville   | \$ 7,254                        | 65.2%                         | 20.3%                                    | 2.6%  | 10.8%                        | 1.2%                    |
| Catalyst  | \$ 24,970                       | 54.5%                         | 7.4%                                     | 19.9%   | 11.1%                        | 7.1%                    |
| Chicago Intl  | \$ 9,012                        | 51.9%                         | 9.3%                                     | 19.6%   | 9.8%                         | 9.3%                    |
| Chicago Math & Science  | \$ 9,157                        | 51.7%                         | 10.9%                                    | 20.2%   | 14.8%                        | 2.4%                    |
| Chicago Virtual   | \$ 7,589                        | 22.6%                         | 40.1%                                    | 22.1%   | 14.2%                        | 0.9%                    |
| Choir   | \$ 9,422                        | 62.2%                         | 7.3%                                     | 10.3%   | 12.4%                        | 7.7%                    |
| Erie  | \$ 13,369                       | 56.5%                         | 15.3%                                    | 18.4%   | 8.1%                         | 1.7%                    |
| KIPP Ascend   | \$ 11,989                       | 50.2%                         | 10.9%                                    | 21.5%   | 15.8%                        | 1.5%                    |
| L.E.A.R.N.  | \$ 8,413                        | 64.7%                         | 8.2%                                     | 7.6%  | 5.7%                         | 13.8%                   |
| Legacy  | \$ 12,010                       | 57.0%                         | 8.9%                                     | 13.9%   | 16.2%                        | 4.0%                    |
| Namaste   | \$ 10,577                       | 55.3%                         | 11.9%                                    | 12.8%   | 9.9%                         | 10.1%                   |
| Noble Street  | \$ 18,381                       | 40.2%                         | 13.7%                                    | 19.8%   | 16.2%                        | 10.1%                   |
| North Lawndale  | \$ 12,767                       | 63.2%                         | 9.3%                                     | 10.5%   | 7.7%                         | 9.5%                    |
| Passages  | \$ 11,948                       | 49.6%                         | 5.6%                                     | 22.3%   | 16.8%                        | 5.6%                    |
| Perspectives  | \$ 15,821                       | 54.0%                         | 9.2%                                     | 16.8%   | 14.7%                        | 5.3%                    |
| Shabazz   | \$ 8,281                        | 76.2%                         | 5.8%                                     | 4.0%  | 13.7%                        | 0.2%                    |
| UNO   | \$ 11,331                       | 39.4%                         | 6.3%                                     | 19.8%   | 9.2%                         | 17.9%                   |
| Young Women's   | \$ 14,013                       | 56.2%                         | 9.1%                                     | 21.0%   | 8.8%                         | 5.0%                    |
| YCCS  | \$ 9,720                        | 84.4%                         | 3.2%                                     | 7.4%  | 4.5%                         | 0.5%                    |
| <b>TOTAL</b>  | <b>\$ 10,956</b>                | <b>54.8%</b>                  | <b>9.1%</b>                              | <b>16.7%</b>                                      | <b>10.7%</b>                 | <b>7.7%</b>             |
| <b>MEDIAN</b>   | <b>\$ 11,331</b>                | <b>54.5%</b>                  | <b>9.2%</b>                              | <b>19.6%</b>                                      | <b>11.1%</b>                 | <b>5.0%</b>             |

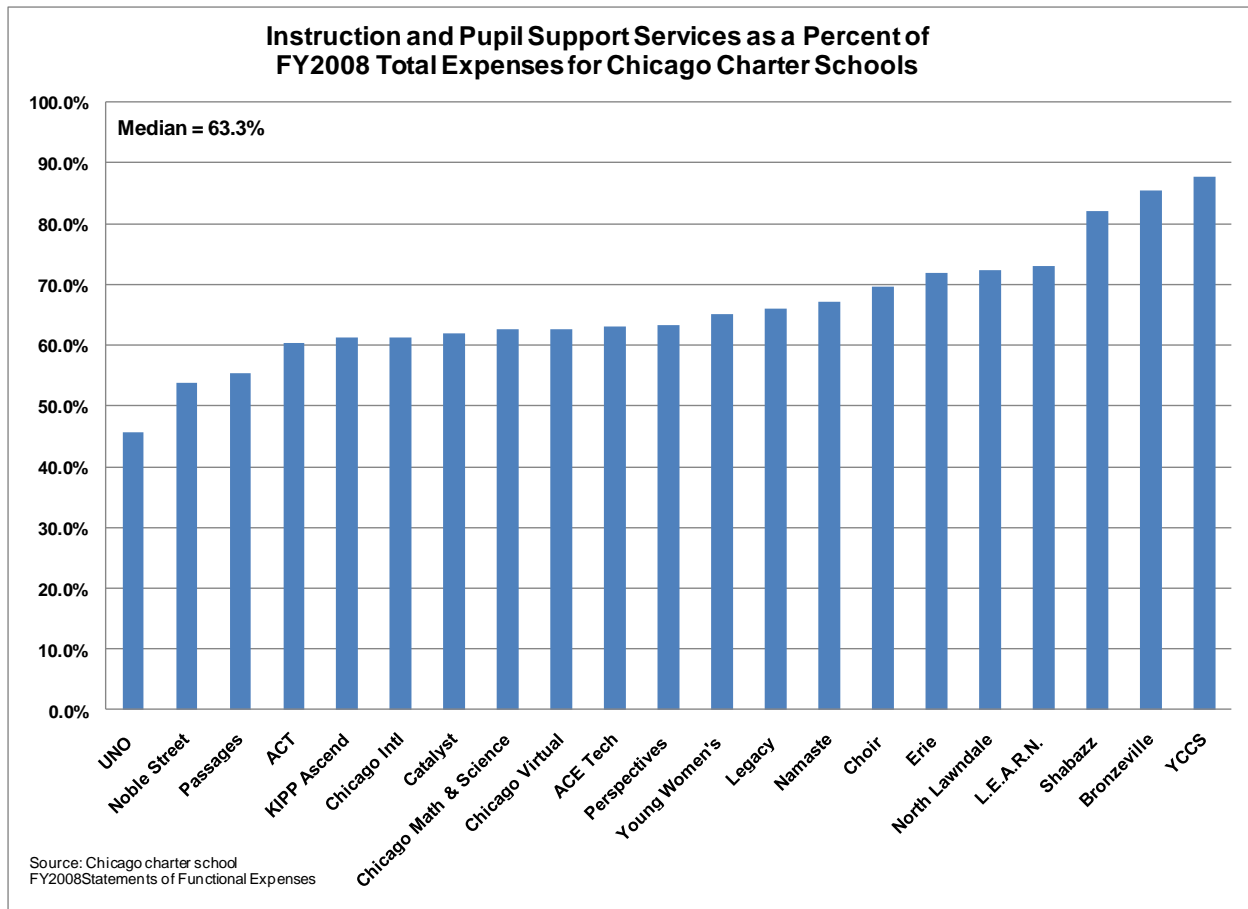
YCCS instruction expenses include payments to Campus Partners.

Source: Chicago charter school FY2008 Statements of Functional Expenses.

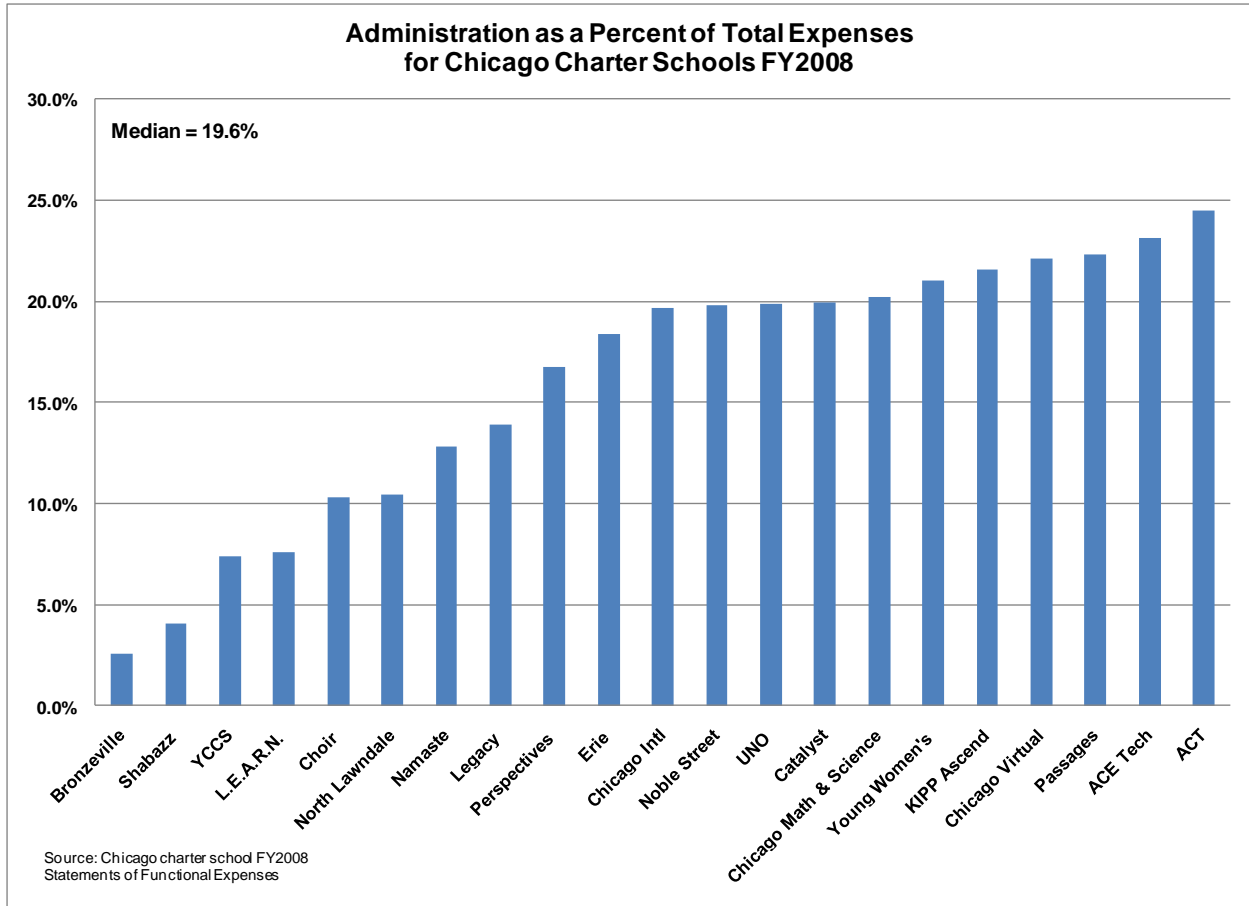
The following exhibit shows instruction as a percentage of the total expenses for the individual Chicago charter schools for FY2008. The median percentage for all schools was 54.5%. The range of actual percentages went from a low of 22.6% for the Chicago Virtual charter school to a high of 84.4% for the Youth Connection Charter school (YCCS).



Combining classroom related expenses for instruction and pupil support services as a percentage of total expenses for FY2008 yields a median of 63.3%. The range of actual percentages varied from a low of 45.7% for the UNO charter schools to a high of 87.6% for the Youth Connection Charter School (YCCS).



The median percent of expenses used for administrative support services in FY2007 was 19.6%, an increase from 16.6% in FY2007. The percentages for individual charter schools ranged from a low of 2.6% for the Bronzeville charter school to a high of 24.5% for the Academy of Communications and Technology (ACT) charter school.



### *Chicago Public Schools and Charter School Expenses*

A comparison of per pupil expenses for the twenty-one Chicago charter schools versus the entire Chicago Public Schools system reveals that the charter schools spent less per pupil. Charter school per pupil expenses were \$9,660 in FY2007 as compared to \$12,330 for the CPS system. This was a difference of \$2,670. In FY2008, the difference between charter school and CPS districtwide expenses per pupil narrowed somewhat to \$1,964. These figures only provide a rough comparison of spending patterns. They do not consider whether there are very different student bodies in the charter schools versus the entire school district. For example, district schools may have higher concentrations of special needs or at-risk students than the charter schools. The detailed evaluation needed to draw specific conclusions supported by clear empirical evidence here is beyond the scope of this study.

| <b>Chicago Charter School Per Pupil Expenses Compared with CPS Per Pupil Expenses</b> |                                  |                                  |
|---|----------------------------------|----------------------------------|
|   | <b>FY2007 Per Pupil Expenses</b> | <b>FY2008 Per Pupil Expenses</b> |
| <b>Chicago Charter Schools</b>  | \$ 9,660                         | \$ 10,956                        |
| <b>Chicago Public Schools</b>   | \$ 12,330                        | \$ 12,920                        |
| <b>Difference</b>   | \$ (2,670)                       | \$ (1,964)                       |

Sources: CPS Statements of Activities, Chicago Charter School Statements of Functional Expenses

The next exhibit presents information about the percentage of charter school expenses devoted to instruction versus the percentage of all CPS expenses devoted to instruction. Chicago charter schools devoted a smaller percentage of total expenses for instruction than all CPS schools in both FY2007 and FY2008, 58.3% versus 61.5% in FY2007 and 54.8% versus 59.5% in FY2008. Here, too, the statistics must be viewed in a broader context. Instructional expenses are primarily program-related salaries and benefits. The difference could be due to the pool of all CPS schools employing a larger percentage of teachers with longer tenure and hence higher personnel costs than charter schools. Additional in-depth research is necessary to more specifically determine the reasons for the disparity.

| <b>Percentage of Total Expenses Devoted to Instruction: Charter Schools vs. CPS</b> |                                       |                                       |
|---|---------------------------------------|---------------------------------------|
|   | <b>FY2007 Percent for Instruction</b> | <b>FY2008 Percent for Instruction</b> |
| <b>Chicago Charter Schools</b>  | 58.3%                                 | 54.8%                                 |
| <b>Chicago Public Schools</b>   | 61.5%                                 | 59.5%                                 |
| <b>Difference</b>   | -3.2%                                 | -4.7%                                 |

Sources: CPS Statements of Activities, Chicago Charter School Statements of Functional Expenses

The next exhibit compares CPS with charter school classroom-based expenses, or instruction plus pupil support services. Here too the percentage of total expenses spent by CPS was higher in both FY2007 and FY2008 than the percentage spent by the twenty-one charter schools studied. The same caveats noted above apply in this case as well.

| <b>Percentage of Total Expenses Devoted to Instruction and Pupil Support Services: Charter Schools vs. CPS</b> |  |  |
|--|--|--|
|  | <b>FY2007 Percent for Instruction &amp; Pupil Support Services</b> | <b>FY2008 Percent for Instruction &amp; Pupil Support Services</b> |
| <b>Chicago Charter Schools</b>   | 67.6%  | 63.9%  |
| <b>Chicago Public Schools</b>  | 78.2%  | 76.2%  |
| <b>Difference</b>  | -10.6%   | -12.3%   |

Sources: CPS Statements of Activities, Chicago Charter School Statements of Functional Expenses

The Chicago charter schools had higher administrative support services costs than CPS as a whole. In FY2007, charter school administrative support services expenses were 14.3% versus 8.1% for CPS. In FY2008, charter school administrative support services expenses were 16.7% versus 8.5% for the District. These costs could be attributable to initially high start up costs for administration. Further research is necessary to more specifically determine the reasons for the disparity.

| <b>Percentage of Total Expenses Devoted to Administrative Support Services:<br/>Charter Schools vs. CPS</b> |  |  |
|---|--|--|
|   | <b>FY2007 Percent for<br/>Administrative<br/>Support</b> | <b>FY2008 Percent for<br/>Administrative<br/>Support</b> |
| <b>Chicago Charter Schools</b>  | 14.3%  | 16.7%  |
| <b>Chicago Public Schools</b>   | 8.1%   | 8.5%   |
| <b>Difference</b>   | 6.2%   | 8.2%   |

Sources: CPS Statements of Activities, Chicago Charter School Statements of Functional Expenses

## **CHICAGO CHARTER SCHOOL REVENUES**

Illinois charter schools negotiate with school districts for the provision of services such as transportation and special education. For example, an Illinois school district may transfer only 90% of its per pupil tuition to a charter school, but provide that charter school with transportation services at no charge. CPS, however, only provides transportation for students with disabilities consistent with their individual education plan.<sup>220</sup> Charter schools also receive the proportionate amount of state and federal categorical funds for their particular student population (e.g., special needs grants and low-income grants). This funding is received by the district and passed through to the charter school.

State and federal start-up grants are available to Illinois charter schools. The state also has a Charter School Revolving Loan Fund that offers interest-free loans to charter schools for the purpose of acquiring and remodeling a facility or for other start-up costs, including the acquisition of supplies, textbooks, furniture, and other equipment. Charter schools are eligible for these loans during their first term of operation and must repay the loans by the end of that term.<sup>221</sup>

There are no provisions in Illinois law requiring school districts to provide charter schools with either capital funds or facilities for the school's use.

<sup>220</sup> Information provided by CPS, April 15, 2011.

<sup>221</sup> Illinois State Board of Education, *Illinois State Board of Education FY2010 Proposed Budget*, [http://www.isbe.net/budget/FY10\\_budget\\_book](http://www.isbe.net/budget/FY10_budget_book), p. 40. This fund has not been used very frequently by Illinois charter schools, according to ISBE's FY2010 Proposed Budget. In FY2009, of the 17 charter schools that were eligible, one of the schools applied for a loan.

### ***Chicago Charter School Funding***

Chicago charter schools receive funding from a variety of federal, state and local sources as well as income funds they generate from their own fundraising efforts. CPS provides each charter school with operational resources that are equal to the average operational funding provided to all other Chicago public schools, on a per pupil basis. Funding may be differentiated according to grade levels, unique student populations or educational programs. Each charter school is entitled to receive its proportional share of state and federal categorical funds subject to applicable grant requirements and obligations. In addition, charter schools are eligible for start-up resources prior to each school's opening and for small schools supplemental funding. Funding for individual charter schools is established in charter school agreements.<sup>222</sup>

According to the CPS Office of New Schools, charter schools receive a base allocation for each student. Per pupil funding rates are based on the grade levels served by the school. The rates are revised annually as part of the overall CPS budget and planning process. The final rates are published in the CPS Budget Book each fiscal year.<sup>223</sup>

- FY2010 Per Pupil Rates: Elementary \$6,117 and High School \$7,647
- FY2009 Per Pupil Rates: Elementary \$5,939 and High School \$7,424
- FY2008 Per Pupil Rates: Elementary \$5,709 and High School \$7,136
- FY2007 Per Pupil Rates: Elementary \$5,460 and High School \$6,775

Per pupil allocations for charter schools were changed in FY2009. Previously, allocations were expense based. Starting in FY2009, they are revenue based. The reason for the change is to introduce more transparency into the process.<sup>224</sup>

The base allocation is supplemented by categorical funding that is unique to each school because it based on the characteristics of the school's student body. Charter schools are eligible to receive Supplemental General State Aid (SGSA) and NCLB Federal Title I funds.

- The amount of SGSA funds that a charter school receives depends on how many of its students are eligible to receive free or reduced-price meals, multiplied by a per-pupil allocation.
- The amount of Title I funds that a charter school is eligible to receive is based on the ratio of TANF (Temporary Assistance to Needy Families) and free and reduced-price lunch data as a percentage of enrollment.

New charter schools are eligible to receive start-up funds from CPS that are based on the number of students in the first year of operation and are provided in order to support a school in acquiring technology equipment, textbooks and supplies, and office and classroom furniture. Start-up funding provided to schools after their first year of operation for grades added is

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<sup>222</sup> Chicago Public Schools Policy Manual Adopted June 27, 2007.

<sup>223</sup> Information provided in an email communication to the Civic Federation from Angela Lagerman, CPS, October 23, 2009.

<sup>224</sup> Information provided to Civic Federation by CPS budget and management staff on September 25, 2009.



referred to as “expansion” funding. Start up and expansion funding is not guaranteed and is available based on budgetary considerations.<sup>225</sup>

Charter schools are also eligible to receive small school supplement and facilities supplement funding. Elementary schools that have an enrollment of 350 or fewer students may be eligible to receive a small school supplement of \$300 per pupil. High schools that have an enrollment of 600 or fewer students are eligible to receive a small school supplement of \$300 per pupil. The facility supplement may be provided to schools that are not housed in a CPS facility; such schools may receive an annual facility supplement for \$425 per pupil. The rates for the small schools and facilities supplement are subject to change as each budget year’s funds are contingent on availability.<sup>226</sup>

Charter schools do not receive an additional funding that is specifically earmarked for pension or benefit costs. Charter schools make pension payments directly to the Chicago Teachers’ Pension fund for the employee’s contribution. Prior to FY2009, per pupil rates were expenditure-based and the charter schools made pension payments for both the employer and employee portion directly to the Chicago Teachers’ Pension Fund. Charter schools have the discretion on whether to withhold the employee portion and/or to submit payments or contributions on the employee’s behalf.<sup>227</sup>

#### *In-Kind and Fee-Based Services Provided by CPS to Charter Schools*

CPS provides a variety of in kind and fee based services to individual charter schools:

- **Clinicians:** Charter schools may elect to have CPS furnish clinicians such as psychologists, nurses, social workers, and speech pathologists to serve students with disabilities. If the school chooses this option, CPS selects and assigns appropriate staff to the school.
- **Food services:** Several charter schools receive in-kind food services from CPS including food, equipment, and labor. Charter schools that solely occupy a CPS facility, are housed in an independent facility or share a CPS facility with another charter school that is not utilizing CPS food services may provide their own food services.
- **Transportation for students with disabilities:** Students with disabilities who attend charter schools are eligible to receive transportation per their Individualized Education Program (IEP). Transportation is provided by CPS or charter schools may provide their own form of transportation to these students and receive reimbursement from by CPS. Charter schools may negotiate with CPS to provide to-and-from transportation services to

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<sup>225</sup> Subject to District-wide budget constraints, CPS does attempt to provide start-up funding each year until the charter school reaches its full grade structure. Information provided in an email Communication from Angela Lagerman, CPS, October 23, 2009.

<sup>226</sup> Information provided in an email communication to the Civic Federation from Angela Lagerman, CPS, October 23, 2009.

<sup>227</sup> Information provided in an email communication to the Civic Federation from Angela Lagerman, CPS, October 23, 2009.

general education students living more than 1.5 miles and less than 6.0 miles from the school. These services are provided by CPS on a case-by-case basis for a fee.

- **Operations and Security Services.** Based on the type of facility sharing arrangement, charter schools may also have the option to utilize operations and security services provided by CPS. Beginning in FY2010, fees charged to charter schools who select these services are based on actual costs. This change is intended to increase transparency. In prior years, charter schools in a CPS facility were charged a flat per pupil rate for these services. For charter schools opting into operations services, facilities are staffed with at least one engineer and custodians proportional to the cleanable square footage. For charter schools opting into security services, the number of security officers assigned to a facility is based on student population, number of violent incidents, and other factors. CPS operations or security services are not available to charter schools in independent facilities.<sup>228</sup>

### *Funding Provided to Charter Schools for Specialized Services*<sup>229</sup>

Charter schools are eligible for funding for specialized services such as special education, after school programming and English Language Learning (ELL) programs. The CPS Office of Specialized Services makes allocations to charter schools for special education teacher, paraprofessional, and clinician services based on minutes and services required in student's Individualized Education Plans (IEPs).

Each charter school hires its own **special education** teachers based on the school's population of students with disabilities. It receives reimbursement on a quarterly basis for its special education teachers. For the FY2009-2010 school year, the reimbursement rate is up to \$65,000 per year per full-time equivalent teacher. The maximum reimbursement to the charter school for full-time equivalent special education teachers will be the lesser of the (i) product of the reimbursement rate multiplied by the number of full-time equivalent teachers eligible for the charter school or (ii) aggregate sum of the actual salaries and benefits of the special education teachers employed at the charter school.

Each charter school hires its own **paraprofessionals** to provide the necessary support required by its students' IEPs. The charter school receives reimbursement on a quarterly basis for these paraprofessionals. For the FY2009-2010 school year, the reimbursement rate is up to \$32,500 per year per full-time equivalent paraprofessional. The maximum reimbursement to the charter school for full-time equivalent paraprofessionals is the lesser of the (i) product of the reimbursement rate multiplied by the number of full-time equivalent paraprofessionals eligible for the charter school or (ii) aggregate sum of the actual salaries and benefits of the paraprofessionals employed at the charter school for special education purposes.

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<sup>228</sup> Information provided in an email communication to the Civic Federation from Angela Lagerman, CPS, October 23, 2009.

<sup>229</sup> The information in this section was provided in an email communication to the Civic Federation from Angela Lagerman, CPS, October 23, 2009.

If required by its students' IEPs, the charter school may elect to furnish its own **clinicians** to provide support to its students with disabilities enrolled at the charter school, or it may elect to have the District furnish clinicians to serve the charter school's students with disabilities. If the charter school elects to have the District furnish the clinicians, the District assigns the necessary staff to the charter school. If the charter school elects to hire its own clinicians, the charter school will receive reimbursement on a quarterly basis for them. For the FY2009-2010 school year, the reimbursement rate is up to \$65,000 per year, per full-time equivalent clinician. The maximum reimbursement to the charter school for full-time equivalent clinicians will be the lesser of the (i) product of the reimbursement rate multiplied by the number of full-time equivalent clinicians at the charter school or (ii) aggregate sum of the actual salaries and benefits of the clinicians at the charter school.

Each charter school has the authority to appoint and pay a salary and benefits for its own qualified **case managers**. However, the District provides the charter school with a stipend of \$1,352 per semester for a qualified Case Manager for the FY2009-2010 school year. A case manager shall be deemed qualified if he or she has (1) a Type 10 (special), Type 03 (elementary), or Type 09 (secondary) ISBE certificate endorsed in a special education area, or with a special education teaching approval or supervisory approval **or** (2) a Type 73 (school service personnel) ISBE certificate endorsed as a school social worker, school psychologist, guidance specialist, or speech-language pathologist or have a supervisory endorsement. The amount of the stipend is subject to the terms of the agreement between the Board of Education and the Chicago Teachers Union.

Programs offered before and after the school day are eligible for funding through the District's **Community Schools Initiative** (CSI). Charter schools, through a partnership with an external non-profit organization, are eligible to apply to participate in CSI. Each school must submit a budget plan and service plan for activities beyond the regular school day that must include an academic component, enrichment component, and parent component.<sup>230</sup> Funding between \$50,000 and \$100,000 annually is available to participate in the CSI program. **English Language Learning** funding is based on a per pupil allocation. The rate is revised annually as part of the overall CPS budget and planning process. Student counts are determined by the number of students designated as English Language Learners by state standards.

### ***Charter School Revenue Categories***

There are a number of different revenue categories listed in the various Chicago charter school audited financial statements. Certain major categories, such as per capita tuition charges and Supplemental General State Aid, are consistent across all reports. However, many others are not, making comparisons across charter schools difficult. Some of the major revenue categories are described in the following section.

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<sup>230</sup> See <http://www.cpsafterschool.org/program/>.

**Per-Capita Tuition Charge:** This is the amount a local school district charges as tuition to nonresident students. It is a reasonable measure of basic education program costs. Per-capita tuition is calculated by deducting the costs of supplemental programs from operating expenses and then dividing the result by the nine-month average daily attendance of the district.<sup>231</sup> The Illinois charter school law requires that charter schools receive between 75% and 125% of district per capita tuition. Per capita tuition is computed in each school district’s Annual Financial Report to the Illinois State Board of Education according to the following general equation:<sup>232</sup>

|   |  |
|---|--|
|   | Total Expenditures   |
| - | Revenues and Expenditures not<br>Applicable to Regular K-12 Programs |
|   | <b>Operating Expense Regular K-12</b>                                |
| - | Offsetting Revenues<br>(e.g., categorical grants, fees)              |
| + | Annual Asset Depreciation  |
|   | <b>Subtotal</b>  |
| ÷ | Average Daily Attendance   |
| = | <b>Per Capita Tuition Charge</b>                                     |

Charter school students are included in the districts’ Average Daily Attendance, which is the same figure used to calculate the districts’ General State Aid claims. Illinois’ per capita tuition calculation is not weighted for different grade levels, despite the fact that the General State Aid formula is weighted differently for elementary school, high school, and unit (K-12) districts.<sup>233</sup> The precise percentage of per capita tuition received by charter schools is negotiated between the charter and the local school board.<sup>234</sup>

As noted above, charter schools receive a base allocation for each student. Per Pupil funding rates for Chicago charter schools are based on the grade levels served by the school. The rates are revised annually as part of the overall CPS budget and planning process; final rates are published in the CPS Budget Book each fiscal year. Because the charter schools have been chartered by the Chicago school district, their per-capita tuition revenues come directly from CPS. Thus, in this report, they are counted as “local” revenue.

**Supplemental General State Aid (SGSA)** is that portion of general state aid (formerly **State Chapter 1 aid**) which the CPS receives that is attributable to the number of low income students

<sup>231</sup> Chicago Public Schools FY2010 Budget, p. 77.

<sup>232</sup> Annual Financial Reports are available from ISBE’s website, <http://www.isbe.state.il.us/sfms/afr/afr.htm>.

<sup>233</sup> The Illinois General State Aid formula multiplies a district’s aggregate taxable property values by 2.30% for elementary school districts, 1.05% for high school districts, and 3.00% for unit schools districts, as a way to estimate the local property taxes available to the districts. This amount, plus the Corporate Personal Property Replacement Tax, is considered to be the total Available Local Resources. For details on the General State Aid calculation, see ISBE’s website, [http://www.isbe.state.il.us/funding/pdf/gsa\\_overview.pdf](http://www.isbe.state.il.us/funding/pdf/gsa_overview.pdf).

<sup>234</sup> If the charter school is authorized directly by ISBE, ISBE is responsible for negotiating the percentage of district per pupil tuition that the charter school will receive.

in the school district and must be used to supplement (not supplant) the basic programs of the district. SGSA funds are distributed to schools on the basis of the number of students eligible for free or reduced-price meals. Each fall, schools are also granted unexpended carryover funds from the prior year.<sup>235</sup>

**Title I funds:** No Child Left Behind (NCLB) Title I federal funds are distributed to public and nonpublic schools in the district on the basis of the following eligibility: “60% of students eligible for free or reduced-price meals + 40% of students from families receiving financial assistance from TANF (Temporary Assistance to Needy Families).”<sup>236</sup> The number of students eligible for NCLB Title I services in public and nonpublic schools combined is then divided by the schools' combined enrollment to obtain each school's poverty index (which is a percentage). Schools are then ranked by their poverty index - from the highest percentage to the lowest percentage. Only schools that have a poverty index of 40.0% or higher are eligible to receive Title I funds. The actual per-pupil dollar allocation varies with the poverty index with the schools having the highest poverty index receiving the highest rate per pupil.

**Contributed goods and services:** FASB Statement Number 116 requires nonprofit organizations to recognize as revenue the fair value of contributed (donated) goods and services. Contributed goods and services are “recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.”<sup>237</sup> A wide variety of donated services from CPS are provided to charter schools and recognized in the financial statements, including food services, nursing, psychological support, speech therapy, social work, computer equipment, rent, textbooks, legal services, playground construction services and equipment.

**Federal E-Rate discount funding:** Public schools, non-profit private schools and libraries are eligible for discounted telecommunications services through this program. Administered by the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), the program was established in 1997 when the Federal Communications Commission adopted a Universal Service Order implementing the Telecommunications Act of 1996. The Order was designed to ensure that all eligible schools and libraries have affordable access to modern telecommunications and information services. Up to \$2.25 billion is available annually to provide eligible schools and libraries with discounts. The E-rate provides discounts of 20% to 90% for eligible telecommunications services, depending on economic need and location (urban or rural). The level of discount is based on the percentage of students eligible for participation in the National School Lunch Program or other federally approved alternative mechanisms.<sup>238</sup>

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<sup>235</sup> See Chicago Public Schools Office of Budget and Management Grants Division at <http://www.csc.cps.k12.il.us/grants/title1/AllocationExplanations2008.html>.

<sup>236</sup> See Chicago Public Schools Office of Budget and Management Grants Division at <http://www.csc.cps.k12.il.us/grants/title1/AllocationExplanations2008.html>.

<sup>237</sup> Financial Accounting Standards Board. *Statement of Financial Accounting Standards No. 116: Accounting for Contributions Received and Contributions Made*, June 1993, p. 6.

<sup>238</sup> <http://www2.ed.gov/about/offices/list/oii/nonpublic/erate.html>

### ***Charter School Revenues by Source***

As noted above, Chicago charter schools receive funding from a variety of federal, state and local sources, as well as school-based funds they generate from their own fundraising efforts. The many disparate revenue items listed in charter school audited financial statements have been grouped into four categories for purposes of analysis: federal, state, local and school-based funding. Local funding was provided by or through CPS. School based funding includes grants, donations, contributions and the proceeds of various fundraising efforts.

There are several caveats regarding the presentation of revenue data that follows. As the revenue items are not uniform across individual school financial statements, the groupings are approximate, based on the best available information. For example, in some audited financial statements, per capita tuition, Title I federal funds and Supplemental General State Aid (SGSA) funds are lumped together even though they derive from different sources of funding.<sup>239</sup> Also, complete financial data were not available for the Erie Charter School in FY2007. Therefore, data are presented for twenty charter schools in FY2007 and twenty-one schools for the following year.

The following exhibits presents the categories of charter school revenues, gains and other supports developed for this analysis.

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<sup>239</sup> These were classified as local source revenues.

| Categories of Chicago Charter School Revenues, Gains and Other Support |  |  |   |   |                            |
|--|--|--|---|---|----------------------------|
| FEDERAL  | STATE                                    |  | LOCAL                                     | SCHOOL  | OTHER                      |
| Federal - E Rate grant   | Advanced placement grant - state sources | Preschool income - state sources         | Contributed facilities and services       | After school activities                                     | Other/Miscellaneous Income |
| Federal charter school grant   | After school activities - state sources  | School lunch program/food reimbursements | Contributed goods & services              | Contributions and grants                                    | Debt forgiveness           |
| Federal E-Rate Discount Funding  | Case manager stipends - state sources    | Small school supplement - state sources  | Contributed goods/services                | Corporate contributions                                     |                            |
| Federal government sources   | Categorical assistance - state sources   | Special Education                        | Contributed grants & specialized services | Foundation contributions                                    |                            |
| Gear Up and 21st Century Grant-federal sources vendor                  | Chapter I - state sources                | Special Education - state sources        | Contributions                             | Fundraisers/special events                                  |                            |
| Group services 21st century grant - federal sources                    | Community schools grant - state sources  | Special Education - state sources        | CPS subsidies                             | Illinois Association of Student Councils-conference revenue |                            |
| No Child Left Behind Parental Involvement - federal source             | CYS - In School/Out of school            | Special education reimbursement          | Grants - unspecified                      | Individual Contributions                                    |                            |
| Title I - federal sources  | ESL state sources                        |  | Instructional program - ROTC              | Interest Income   |                            |
| US Board of Education Grant  | Expansion grant - state sources          | Start up funds - state sources           | Other Grants                              | Management services   |                            |
| US Department of Education-PEP   | Facilities supplement - state sources    | State government sources                 | Per Capita Tuition                        | Program/service fees  |                            |
| US Dept of Education implementation grant-federal sources              | Growth funds - state sources             | State supplemental                       | Per Capita Tuition/SGSA/NCLB              | Reimbursements to campuses                                  |                            |
| US Dept of Education other grants-federal sources                      | Illinois DCEO - state sources            | State supplemental                       | Supplemental GSA                          | Rental income   |                            |
|  | Illinois State Board of Education        | Summer School - state sources            |   | Student fees/activities                                     |                            |
|  | Illinois textbook loan program           |  |   | Student fees/uniforms                                       |                            |
|  | Local Government sources                 |  |   | Student fundraisers   |                            |
|  | Other - state sources                    |  |   | Textbook sales  |                            |
|  | Other grants - state sources             |  |   |   |                            |
|  | Other revenues - state sources           |  |   |   |                            |

Source: Chicago charter school audited financial statements.

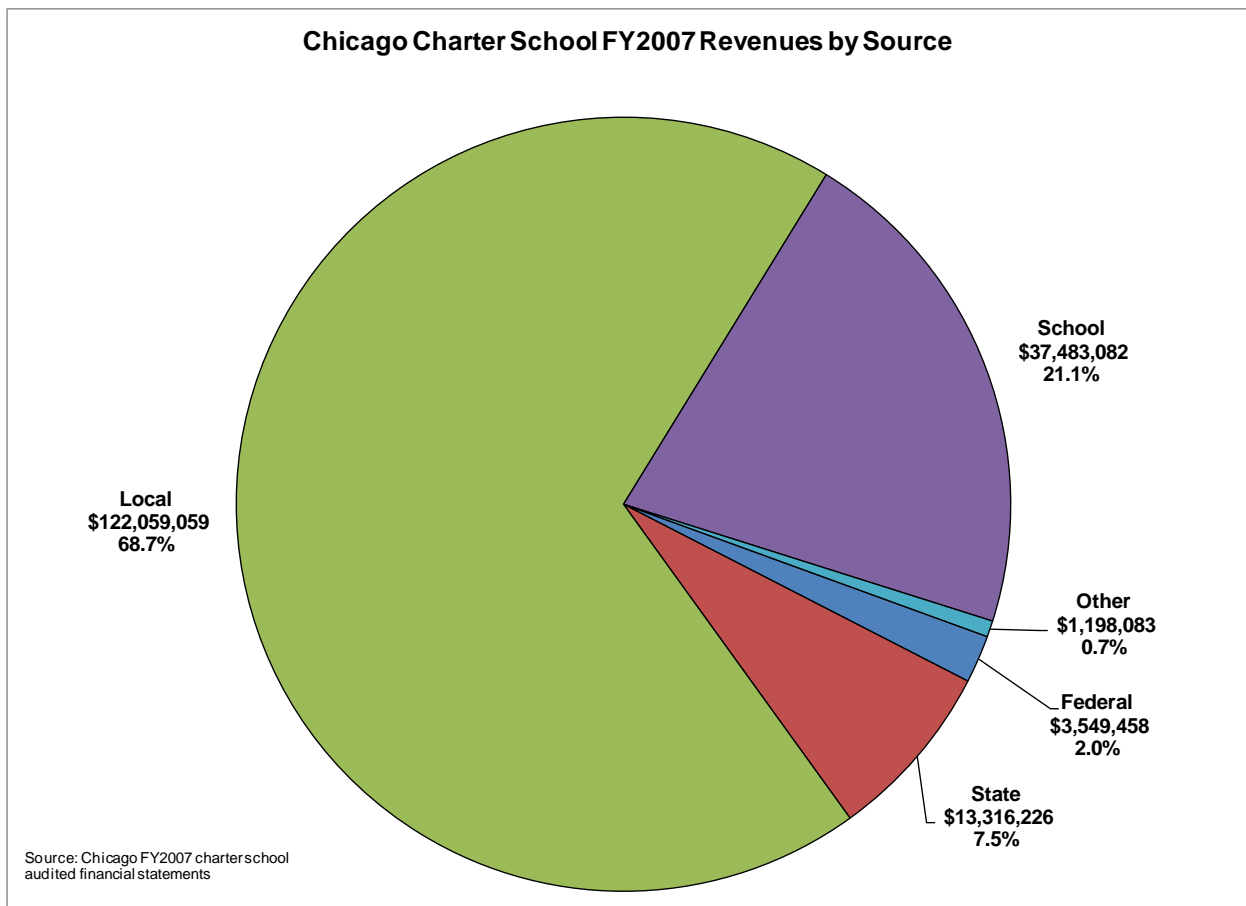
In FY2007, total revenues for the Chicago charter schools reviewed rose from \$177.6 million to \$219.6 million, a 23.7% increase.

| <b>Chicago Charter School Revenues by Source: FY2007 and FY2008</b> |                       |                       |                      |                 |
|---|-----------------------|-----------------------|----------------------|-----------------|
| <b>Source</b>   | <b>FY2007</b>         | <b>FY2008</b>         | <b>\$ Change</b>     | <b>% Change</b> |
| <b>Federal</b>  | \$ 3,549,458          | \$ 4,735,909          | \$ 1,186,451         | 33.4%           |
| <b>State</b>  | \$ 13,316,226         | \$ 24,241,003         | \$ 10,924,777        | 82.0%           |
| <b>Local</b>  | \$ 122,059,059        | \$ 157,126,835        | \$ 35,067,776        | 28.7%           |
| <b>School</b>   | \$ 37,483,082         | \$ 32,424,795         | \$ (5,058,287)       | -13.5%          |
| <b>Other</b>  | \$ 1,198,083          | \$ 1,115,886          | \$ (82,197)          | -6.9%           |
| <b>Total</b>  | <b>\$ 177,605,908</b> | <b>\$ 219,644,428</b> | <b>\$ 42,038,520</b> | <b>23.7%</b>    |

Comparable data not available for Erie charter school in FY2007.

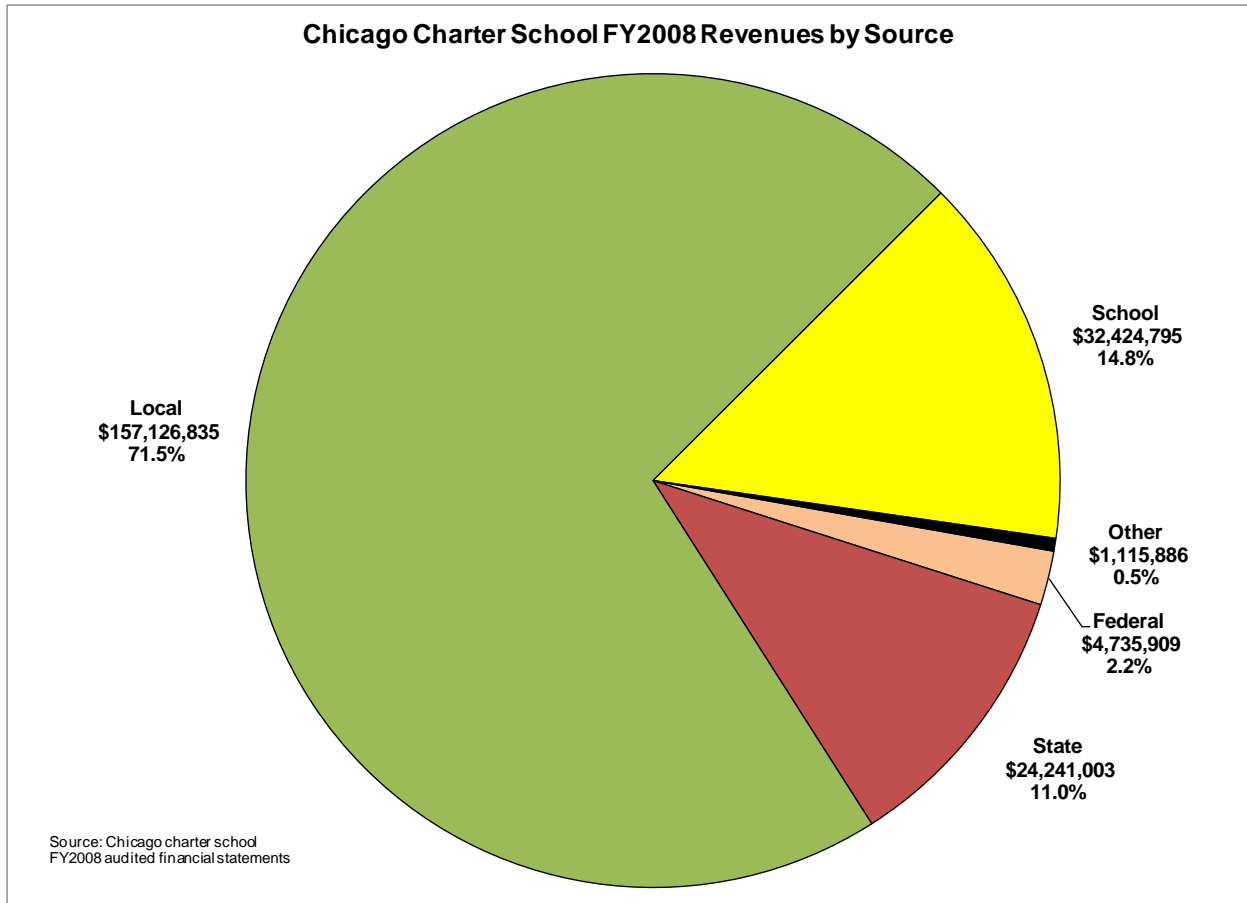
Source: FY2008 Chicago charter school audited financial statements.

In FY2007, the majority of charter school revenues or 68.7% were local – that is, they are provided by or through CPS. This includes per capita tuition funds. Over 21% were school-based and 7.5% were from state sources. Federal sources accounted for 2.0% of all revenues.





The local percentage of all charter school revenues rose to 71.5% or \$157.1 million in FY2008. School based revenues dropped from 21.1% of total revenues to 14.8%. State source revenues rose from 7.9% in FY2007 to 11.0% a year later. Federal sources in FY2008 were 2.2% of all revenues.



***Revenues by Source by School***

This section breaks out revenues by source - federal, state, local and school-based - for each of the twenty Chicago charter schools analyzed.

In FY2007, the median percentage for local revenues for the twenty charter schools was 66.2%. For fifteen of the twenty schools, local revenues were a majority (i.e., over 50%) of all revenues. The median percentage was 16.5% for school-based revenues, 8.8% for state revenues, 2.6% for federal revenues and 0.1% for other revenues.

| <b>Chicago Charter School FY2007 Revenues by Source</b> |                |              |              |               |              |
|---|----------------|--------------|--------------|---------------|--------------|
| <b>Charter School</b>                                   | <b>Federal</b> | <b>State</b> | <b>Local</b> | <b>School</b> | <b>Other</b> |
| ACT   | 3.7%           | 11.0%        | 74.0%        | 9.0%          | 2.2%         |
| ACE   | 2.3%           | 13.5%        | 71.2%        | 13.1%         | 0.0%         |
| Bronzeville   | 4.7%           | 4.1%         | 90.4%        | 0.6%          | 0.1%         |
| Catalyst  | 6.6%           | 3.8%         | 31.5%        | 58.0%         | 0.2%         |
| Chgo Intl   | 0.4%           | 5.0%         | 85.9%        | 7.9%          | 0.8%         |
| Chgo Math   | 2.1%           | 12.1%        | 83.3%        | 2.0%          | 0.4%         |
| Chgo Virtual  | 7.8%           | 4.0%         | 69.0%        | 0.0%          | 19.3%        |
| Choir   | 0.0%           | 20.2%        | 63.5%        | 11.4%         | 5.0%         |
| KIPP  | 2.2%           | 11.5%        | 66.4%        | 19.9%         | 0.0%         |
| Learn   | 3.2%           | 2.0%         | 66.0%        | 27.6%         | 1.2%         |
| Legacy  | 5.6%           | 5.4%         | 17.6%        | 71.3%         | 0.1%         |
| Namaste   | 5.2%           | 19.1%        | 42.0%        | 33.6%         | 0.0%         |
| Noble   | 2.8%           | 7.6%         | 25.3%        | 64.2%         | 0.2%         |
| N Lawndale  | 3.2%           | 8.9%         | 58.1%        | 27.9%         | 1.9%         |
| Passages  | 2.3%           | 15.4%        | 61.3%        | 21.0%         | 0.0%         |
| Perspectives  | 2.4%           | 8.6%         | 49.1%        | 39.9%         | 0.0%         |
| Shabazz   | 1.6%           | 9.3%         | 78.0%        | 11.1%         | 0.0%         |
| UNO   | 3.3%           | 13.7%        | 76.7%        | 6.3%          | 0.0%         |
| Young Women's   | 1.6%           | 8.2%         | 61.0%        | 29.2%         | 0.0%         |
| YCCS  | 0.7%           | 4.0%         | 94.2%        | 1.1%          | 0.1%         |
| <b>TOTAL</b>  | <b>2.0%</b>    | <b>7.9%</b>  | <b>68.3%</b> | <b>21.1%</b>  | <b>0.7%</b>  |
| <b>MEDIAN</b>   | <b>2.6%</b>    | <b>8.8%</b>  | <b>66.2%</b> | <b>16.5%</b>  | <b>0.1%</b>  |

Source: Chicago charter school FY2007 audited financial statements.

In FY2008, the median percentage for local revenues for the twenty-one charter schools reviewed was 68.7%, slightly higher than in the previous year. For seventeen of the twenty-one schools, local revenues were a majority (i.e., over 50%) of all revenues. The median percentage was 14.9% for school-based revenues, 9.1% for state revenues, 2.8% for federal revenues and 0.1% for other revenues.

| <b>Chicago Charter School FY2008 Revenues by Source</b> |                |              |              |               |              |
|---|----------------|--------------|--------------|---------------|--------------|
| <b>Charter School</b>                                   | <b>Federal</b> | <b>State</b> | <b>Local</b> | <b>School</b> | <b>Other</b> |
| ACT   | 3.1%           | 12.1%        | 74.4%        | 9.8%          | 0.6%         |
| ACE   | 2.8%           | 10.7%        | 75.8%        | 10.8%         | 0.0%         |
| Bronzeville   | 9.2%           | 2.2%         | 86.7%        | 1.8%          | 0.0%         |
| Catalyst  | 4.4%           | 4.6%         | 48.3%        | 38.9%         | 3.8%         |
| Chgo Intl   | 0.6%           | 4.6%         | 82.7%        | 12.0%         | 0.2%         |
| Chgo Math   | 2.4%           | 10.3%        | 83.9%        | 3.0%          | 0.3%         |
| Chgo Virtual  | 2.6%           | 6.1%         | 84.2%        | 7.1%          | 0.0%         |
| Choir   | 3.9%           | 1.1%         | 83.4%        | 8.9%          | 2.7%         |
| Erie  | 3.9%           | 13.6%        | 60.4%        | 21.2%         | 1.0%         |
| KIPP  | 2.7%           | 9.2%         | 67.3%        | 20.8%         | 0.0%         |
| Learn   | 2.9%           | 1.2%         | 60.4%        | 35.3%         | 0.2%         |
| Legacy  | 3.9%           | 7.8%         | 32.7%        | 55.6%         | 0.1%         |
| Namaste   | 7.0%           | 26.5%        | 44.6%        | 21.9%         | 0.0%         |
| Noble   | 2.9%           | 24.8%        | 45.4%        | 26.3%         | 0.6%         |
| N Lawndale  | 2.6%           | 14.7%        | 59.9%        | 21.8%         | 0.9%         |
| Passages  | 2.9%           | 14.5%        | 70.0%        | 12.6%         | 0.0%         |
| Perspectives  | 1.7%           | 24.9%        | 56.1%        | 17.3%         | 0.0%         |
| Shabazz   | 2.7%           | 9.0%         | 79.9%        | 8.3%          | 0.1%         |
| UNO   | 3.6%           | 15.2%        | 72.8%        | 6.3%          | 2.0%         |
| Young Women's   | 2.0%           | 8.9%         | 65.8%        | 23.3%         | 0.1%         |
| YCCS  | 1.2%           | 5.0%         | 93.0%        | 0.8%          | 0.1%         |
| <b>TOTAL</b>  | <b>2.2%</b>    | <b>11.0%</b> | <b>71.5%</b> | <b>14.8%</b>  | <b>0.5%</b>  |
| <b>MEDIAN</b>   | <b>2.8%</b>    | <b>9.1%</b>  | <b>68.7%</b> | <b>14.9%</b>  | <b>0.1%</b>  |

Source: Chicago charter school FY2008 audited financial statements.

### *School-Based Charter School Revenues*

There are a variety of ways charter schools generate income that they control. They include:

- Applying for and receiving corporate, foundation and individual grants, donations and contributions;
- Hosting fundraising events, including student fundraisers;
- Charging program and student fees;
- Generating interest income; and
- Receiving management service fees.

The charter schools studied generated \$37.4 million in school-based revenues (21.1% of all revenues) in FY2007 and \$32.4 million in FY2008 (14.8% of all revenues). The following exhibit shows the breakdown for those revenues for FY2007 and FY2008.

- The single largest category in both years was contributions and grants, which accounted for 85.3% of all school-based revenues in FY2007 and then fell to 76.1% the following year.
- The second largest category in both years was interest income, which generated \$2.0 million in FY2007 and \$2.8 million in FY2008. It represented 5.5% of all school based revenue in FY2007 and 7.5% in FY2008.

- Fees were \$1.9 million in FY2007 and then \$2.6 million in FY2008. This was 5.1% and 8.1% of all school revenues in the two years respectively.
- Fundraising generated 2.3% of all school revenues in FY2007, rising to 2.5% in FY2008.
- Other revenues, which included textbook sales, reimbursements to campuses and rental income, grew by 74.0% between FY2007 and FY2008.

| <b>Chicago Charter School School Based Revenues FY2007 &amp; FY2008</b> |                      |                      |                       |                 |
|---|----------------------|----------------------|-----------------------|-----------------|
|   | <b>FY2007</b>        | <b>FY2008</b>        | <b>\$ Change</b>      | <b>% Change</b> |
| <b>Contributions and Grants</b>   | \$ 31,993,275        | \$ 24,687,261        | \$ (7,306,014)        | -22.8%          |
| <b>Interest Income</b>  | \$ 2,058,780         | \$ 2,871,385         | \$ 812,605            | 39.5%           |
| <b>Fees</b>   | \$ 1,913,278         | \$ 2,639,750         | \$ 726,472            | 38.0%           |
| <b>Fundraising</b>  | \$ 880,252           | \$ 838,163           | \$ (42,089)           | -4.8%           |
| <b>Management Services</b>  | \$ 330,197           | \$ 853,622           | \$ 523,425            | 158.5%          |
| <b>Other</b>  | \$ 307,300           | \$ 534,614           | \$ 227,314            | 74.0%           |
| <b>Total</b>  | <b>\$ 37,483,082</b> | <b>\$ 32,424,795</b> | <b>\$ (5,058,287)</b> | <b>-13.5%</b>   |

Comparable data not available for Erie charter school in FY2007.

Source: FY2008 Chicago charter school audited financial statements.

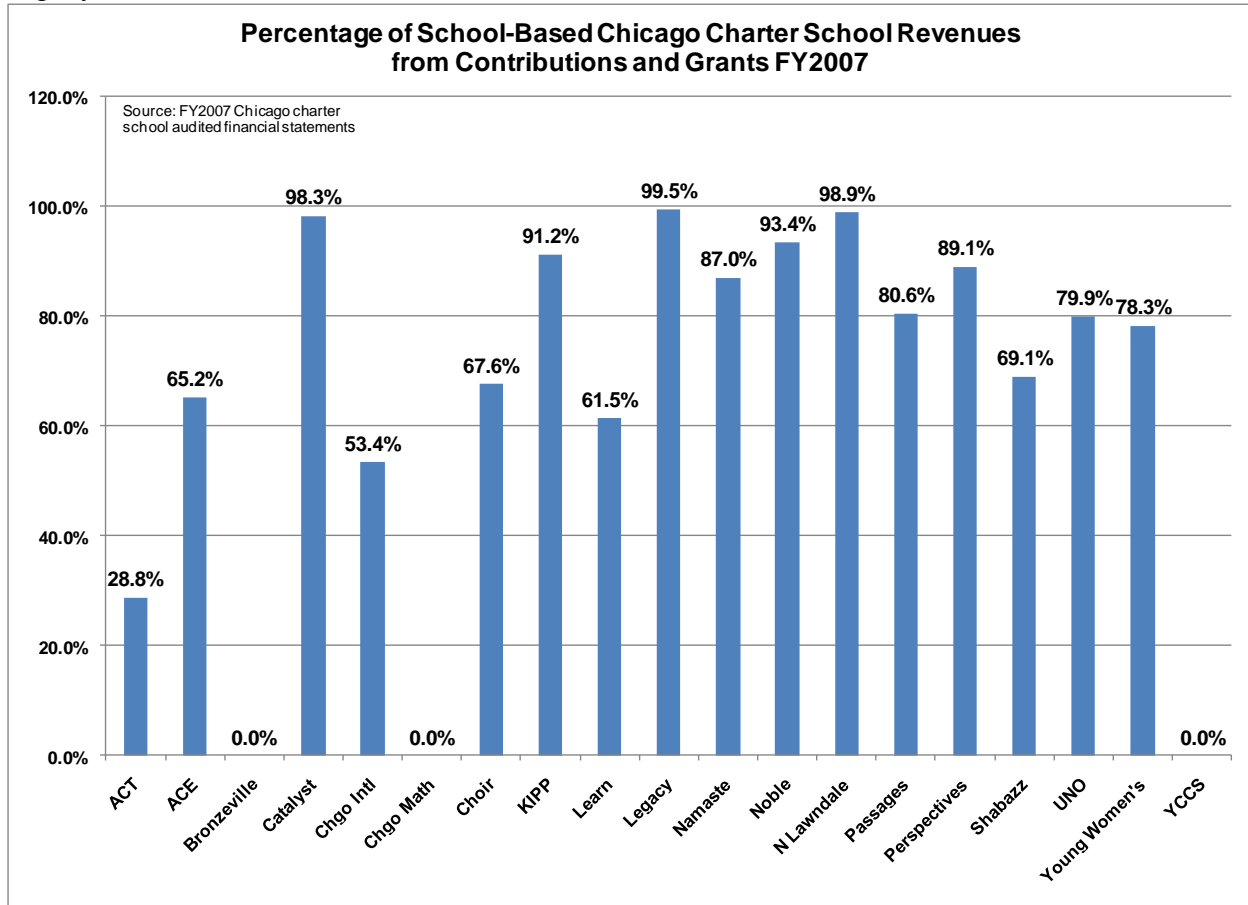
In FY2007, 78.3% was the median percentage of total revenues for the twenty charter schools studied that could be attributed to contributions and grants. Thirteen of the twenty charter schools reported that over 65% of their revenues were contributions and/or grants. The median percentage was 1.8% for fundraising, 4.7% for fees, 3.0% for interest income and less than 1.0% for management services and other revenues.

| <b>FY2007 School-Based Revenues for Chicago Charter Schools</b> |                                   |                    |             |                        |                            |              |
|---|-----------------------------------|--------------------|-------------|------------------------|----------------------------|--------------|
| <b>Charter Schools</b>  | <b>Contributions &amp; Grants</b> | <b>Fundraising</b> | <b>Fees</b> | <b>Interest Income</b> | <b>Management Services</b> | <b>Other</b> |
| ACT   | 28.8%                             | 48.0%              | 23.2%       | 0.0%                   | 0.0%                       | 0.0%         |
| ACE   | 65.2%                             | 21.3%              | 5.1%        | 8.4%                   | 0.0%                       | 0.0%         |
| Bronzeville   | 0.0%                              | 0.0%               | 0.0%        | 100.0%                 | 0.0%                       | 0.0%         |
| Catalyst  | 98.3%                             | 0.0%               | 1.7%        | 0.0%                   | 0.0%                       | 0.0%         |
| Chgo Intl   | 53.4%                             | 0.0%               | 16.4%       | 26.0%                  | 0.0%                       | 4.2%         |
| Chgo Math   | 0.0%                              | 5.1%               | 94.9%       | 0.0%                   | 0.0%                       | 0.0%         |
| Choir   | 67.6%                             | 0.0%               | 31.4%       | 0.9%                   | 0.0%                       | 0.0%         |
| KIPP  | 91.2%                             | 1.8%               | 4.7%        | 2.4%                   | 0.0%                       | 0.0%         |
| Learn   | 61.5%                             | 17.1%              | 18.4%       | 3.0%                   | 0.0%                       | 0.0%         |
| Legacy  | 99.5%                             | 0.0%               | 0.4%        | 0.1%                   | 0.0%                       | 0.0%         |
| Namaste   | 87.0%                             | 5.6%               | 2.0%        | 5.3%                   | 0.0%                       | 0.0%         |
| Noble   | 93.4%                             | 0.0%               | 1.8%        | 1.5%                   | 2.3%                       | 0.9%         |
| N Lawndale  | 98.9%                             | 0.0%               | 0.9%        | 0.2%                   | 0.0%                       | 0.0%         |
| Passages  | 80.6%                             | 0.0%               | 19.4%       | 0.0%                   | 0.0%                       | 0.0%         |
| Perspectives  | 89.1%                             | 4.1%               | 3.4%        | 3.4%                   | 0.0%                       | 0.0%         |
| Shabazz   | 69.1%                             | 3.7%               | 19.8%       | 7.5%                   | 0.0%                       | 0.0%         |
| UNO   | 79.9%                             | 7.1%               | 0.6%        | 12.5%                  | 0.0%                       | 0.0%         |
| Young Women's   | 78.3%                             | 10.5%              | 7.7%        | 3.5%                   | 0.0%                       | 0.0%         |
| YCCS  | 0.0%                              | 0.0%               | 0.0%        | 100.0%                 | 0.0%                       | 0.0%         |
| <b>TOTAL</b>  | <b>85.4%</b>                      | <b>2.3%</b>        | <b>5.1%</b> | <b>5.5%</b>            | <b>0.9%</b>                | <b>0.8%</b>  |
| <b>MEDIAN</b>   | <b>78.3%</b>                      | <b>1.8%</b>        | <b>4.7%</b> | <b>3.0%</b>            | <b>0.0%</b>                | <b>0.0%</b>  |

Chicago Virtual Charter school reported no school-based revenues in FY2007.

Source: Chicago charter school FY2007 audited financial statements.

The percentage of school-based revenues that derived from contributions and grants in FY2007 is shown in the next exhibit. It ranged from a low of 0.0% for the Chicago Mathematics and Science Academy and the Youth Connection Charter School (YCCS) to a high of 99.5% for the Legacy Charter School.



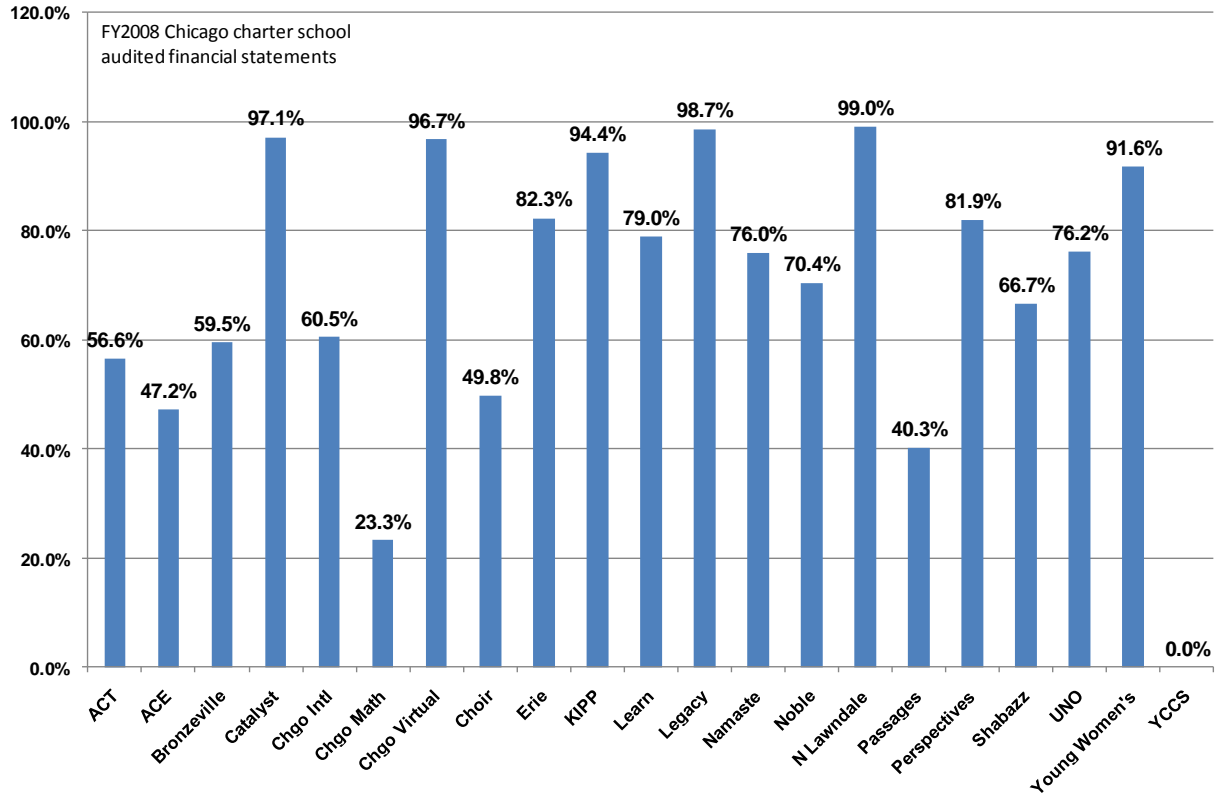
In FY2008, the median percentage of total revenues for the twenty-one charter schools reviewed that could be attributed to contributions and grants was 76.0%. Thirteen of the charter schools reported that over 65% of their revenues were contributions and/or grants. The median percentage of total revenues was 0.0% for fundraising, 5.8% for fees, 2.0% for interest income and less than 1.0% for management services and other revenues.

| <b>FY2008 School-Based Revenues for Chicago Charter Schools</b> |                                   |                    |             |                        |                            |              |
|---|-----------------------------------|--------------------|-------------|------------------------|----------------------------|--------------|
| <b>Charter School</b>   | <b>Contributions &amp; Grants</b> | <b>Fundraising</b> | <b>Fees</b> | <b>Interest Income</b> | <b>Management Services</b> | <b>Other</b> |
| ACT   | 56.6%                             | 37.5%              | 5.1%        | 0.8%                   | 0.0%                       | 0.0%         |
| ACE   | 47.2%                             | 26.5%              | 10.6%       | -1.1%                  | 16.8%                      | 0.0%         |
| Bronzeville   | 59.5%                             | 0.0%               | 0.0%        | 40.5%                  | 0.0%                       | 0.0%         |
| Catalyst  | 97.1%                             | 0.0%               | 2.9%        | 0.0%                   | 0.0%                       | 0.0%         |
| Chgo Intl   | 60.5%                             | 0.0%               | 14.2%       | 22.6%                  | 0.0%                       | 2.7%         |
| Chgo Math   | 23.3%                             | 8.9%               | 67.8%       | 0.0%                   | 0.0%                       | 0.0%         |
| Chgo Virtual  | 96.7%                             | 0.0%               | 0.0%        | 3.3%                   | 0.0%                       | 0.0%         |
| Choir   | 49.8%                             | 0.0%               | 48.7%       | 1.5%                   | 0.0%                       | 0.0%         |
| Erie  | 82.3%                             | 7.9%               | 7.8%        | 2.0%                   | 0.0%                       | 0.0%         |
| KIPP  | 94.4%                             | 0.1%               | 3.8%        | 1.8%                   | 0.0%                       | 0.0%         |
| Learn   | 79.0%                             | 5.0%               | 14.1%       | 2.0%                   | 0.0%                       | 0.0%         |
| Legacy  | 98.7%                             | 0.0%               | 0.6%        | 0.7%                   | 0.0%                       | 0.0%         |
| Namaste   | 76.0%                             | 10.7%              | 5.8%        | 7.4%                   | 0.0%                       | 0.0%         |
| Noble   | 70.4%                             | 0.0%               | 6.0%        | 6.5%                   | 11.9%                      | 5.2%         |
| N Lawndale  | 99.0%                             | 0.0%               | 0.8%        | 0.2%                   | 0.0%                       | 0.0%         |
| Passages  | 40.3%                             | 0.0%               | 55.7%       | 4.0%                   | 0.0%                       | 0.0%         |
| Perspectives  | 81.9%                             | 9.2%               | 7.0%        | 1.8%                   | 0.0%                       | 0.0%         |
| Shabazz   | 66.7%                             | 0.3%               | 26.4%       | 6.7%                   | 0.0%                       | 0.0%         |
| UNO   | 76.2%                             | 6.5%               | 0.3%        | 17.0%                  | 0.0%                       | 0.0%         |
| Young Women's   | 91.6%                             | 0.0%               | 4.8%        | 3.6%                   | 0.0%                       | 0.0%         |
| YCCS  | 0.0%                              | 0.0%               | 0.0%        | 100.0%                 | 0.0%                       | 0.0%         |
| <b>TOTAL</b>  | <b>76.1%</b>                      | <b>2.6%</b>        | <b>8.1%</b> | <b>8.9%</b>            | <b>2.6%</b>                | <b>1.6%</b>  |
| <b>MEDIAN</b>   | <b>76.0%</b>                      | <b>0.0%</b>        | <b>5.8%</b> | <b>2.0%</b>            | <b>0.0%</b>                | <b>0.0%</b>  |

Source: Chicago charter school FY2008 audited financial statements.

The percentage of school-based revenues that derived from contributions and grants in FY2008 ranged from a low of 0.0% for the Youth Connection Charter School to a high of 99.0% for the North Lawndale Charter School.

**Percentage of School-Based Chicago Charter School Revenues  
from Contributions and Grants FY2008**



## Chapter Six

### CHICAGO CHARTER SCHOOL FINANCIAL INDICATOR ANALYSIS

This chapter provides a financial indicator analysis of the Chicago charter school system. The primary purpose of a financial indicator analysis is to measure the fiscal condition or health of an organization using a number of conventional yard sticks, or financial indicators. It is important to note that certain specific financial operations analytical measures used, such as the measures of financial practices, compliance and audit opinions also provide evaluations of accountability. They measure whether the charter schools met important standards of fiscal accountability as established by CPS or best practices.

Four different types of financial indicator analysis were employed in this chapter to provide a comprehensive picture of the financial position of the charter schools:

1. **Financial Operations Analysis:** This is an evaluation of the operational performance of the charter schools, including whether they reported having a balanced budget, if they meet financial practice and compliance standards and if they have an unqualified audit opinion. The first two financial operations analyses are conducted annually by CPS. The third is a standard measure of financial reporting quality.
2. **Fiscal Viability Analysis:** This indicator reported whether or not each school had a deficit or a surplus in a given year.
3. **Fund Balance Ratio Analysis:** This is a measure of resources available to use for emergencies or contingencies. It is a commonly utilized measure of fiscal health.
4. **Financial Performance Analysis:** A financial performance analysis evaluates an organization's overall financial health over a given period of time. It employs a variety of financial indicators commonly used in the private, public and nonprofit sectors. The indicators used in this analysis include the current ratio, the fixed assets ratio, the capitalization ratio, the debt-to-worth ratio, the occupancy ratio, the instruction ratio and the profit margin ratio. An additional review comparing three indicators to benchmarked standards – payroll ratio, occupancy ratio and payroll + occupancy ratio - also was conducted. This type of analysis is an adaptation of the fiscal analysis conducted annually by the District of Columbia Charter School Board.

The information used in the various analyses was derived from the FY2007 and FY2008 budgets and audited financial statements of the individual charter schools, as well as financial reports published by the Chicago Public Schools. Not all of the charter schools produced budgets and/or audited financial statements in both years, so comparisons were only made between those schools that provided consistent financial data.<sup>240</sup> The methodology used to conduct the four

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<sup>240</sup> The information for the financial operations analysis (except for audit opinions) was drawn from those twenty six schools in FY2007 and twenty eight schools in FY2008 that provided information to CPS for the annual charter



different types of analysis was adapted from those used in several key sources: Chicago Public Schools annual evaluation of its charter schools' performance,<sup>241</sup> Miron and Nelson's study of the finances of Pennsylvania charter schools,<sup>242</sup> the District of Columbia Public Charter School Board's General Performance Assessment (GPA) analysis<sup>243</sup> and standard financial statement ratio analyses commonly used in the public and nonprofit sectors.<sup>244</sup>

It is important to note that the assessments that follow represent a snapshot of financial performance at a point in time, in this case over a two-year period. They provide important general insights into the financial condition of the organization or a group of organizations. However, there are often extenuating circumstances regarding the particular situation of individual organizations. Identifying and evaluating the reasons for these individual circumstances is beyond the scope of this analysis.

## SUMMARY OF FINDINGS

The following section is a brief summary of the key findings of the financial indicator analysis of the Chicago charter schools.

The summary results of the financial operations, fiscal viability, fund balance ratio and financial performance analyses showed that a majority of the individual charter schools were in a **positive financial position** in both FY2007 and FY2008. However, there was one general area of potential concern:

- Schools were spending an increasing amount of resources on payroll expenses, including salaries, benefits, and administrative and professional services. A payroll ratio divides payroll expenses by gross revenue to measure whether half or more of a school's gross revenues are used to pay for payroll. A ratio of less than 50% is desirable as it means that personnel costs - the single largest expense in a school - are being kept under control.<sup>245</sup> The number of schools with payroll ratios over 50% rose from twelve out of the twenty-two schools reporting consistent financial data in FY2007 to sixteen in FY2008. Increasing amounts spent on payroll means that less money is available for other school activities and functions. High payroll ratios may be difficult to sustain over time.

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school performance reports. A lesser number provided complete budget and financial statement data in both FY2007 and FY2008.

<sup>241</sup> Chicago Public Schools Office of New Schools. *Charter Schools Performance Report 2007-08*.

<sup>242</sup> Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University. October 2000.

<sup>243</sup> District of Columbia Public Charter School Board. *District of Columbia Fiscal Policy Handbook*, 3<sup>rd</sup> edition, July 2008. See also Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal*. December 2002-January 2003.

<sup>244</sup> See Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2005).

<sup>245</sup> District of Columbia Public Charter School Board. *District of Columbia Fiscal Policy Handbook*, 3<sup>rd</sup> edition, July 2008.

## **Financial Operations Analysis Findings**

The financial operations analysis is a review of how well the Chicago charter schools adhere to sound budget and finance practices. This includes whether they reported a balanced budget, whether their obligations were current, if any material weaknesses were uncovered in the financial audit regarding internal controls, whether the charter school complies with applications and regulations prescribed by the Chicago Public Schools or other entities and if the school received an unqualified audit opinion. In all of these categories, the charter schools in the aggregate received **positive** ratings.

### *Budget Position*

- Seventeen of the twenty-eight charter schools (60.7%) providing reports to CPS reported surpluses and/or balanced budgets in both FY2007 and FY2008.
- Two charter schools budgetary position improved between FY2007 and FY2008, moving from a deficit situation to a balanced budget.
- Nine charter schools (32.1%) reported a negative budget situation over the two-year course of this review. Five schools reported a change from a budget surplus or a balanced budget to a budget deficit, while four others reported a deficit in both fiscal years.

### *Financial Practices*

The financial practices indicator examines whether each charter school's obligations are current and whether the annual financial audit uncovered any material weaknesses regarding internal controls.

- The number of schools receiving a High rating, which indicates that obligations were current and no material weaknesses regarding internal controls were discovered, rose from sixteen to twenty three.
- The number of schools with a Middle rating, where there were some problems such as obligations not being current or there were weaknesses in internal control structures and procedures, declined from nine to two.
- The number of schools with a Low rating, indicating that there were repeated weaknesses regarding internal controls, rose from one in FY2007 to three one year later.
- Overall, the ratings for Chicago's charter schools **improved** between FY2007 and FY2008

### *Compliance*

The compliance indicator measures rates of compliance by Chicago charter schools with required CPS and other entity applications and regulations.

- Compliance with CPS regulations **increased** between FY2007 and FY2008.
- The number of charter schools receiving a High rating, indicating full compliance, rose from nineteen to twenty-three, or 85%, of the twenty-eight charter schools in operation and reporting to CPS.

- The number of schools receiving a Middle rating, where there were one to three findings of noncompliance dropped from five to two.
- Three schools received a Low rating in FY2008, indicating multiple repeat findings of noncompliance, up from two the previous year.

### *Audit Opinions*

All Chicago charter schools received unqualified or “clean” audit opinions in both FY2007 and FY2008. This means that their financial statements were in compliance with nonprofit generally accepted accounting principles.

### **Fiscal Viability Analysis Findings**

A review of audited year-end balances shows whether each charter school had a deficit in a given year. Because the schools budgeted adequately to cover expenses, few reported deficits in both FY2007 and FY2008.

- In FY2007, only four of the twenty-seven charter schools providing financial data reported deficits. The median year-end balance for all of the twenty-seven schools was \$239,886, or 7.2% of total expenses.
- In FY2008, the number of charter schools reporting deficits rose to nine, a negative finding. The median Chicago charter school end-of-year balance in that year was \$172,268. The median balance was 4.7% of total expenses.
- The increase in the number of charter schools reporting deficits between FY2007 and FY2008 may be a one-year anomaly or the beginning of a trend. Further monitoring is needed in subsequent years.

### **Fund Balance Ratio Analysis Findings**

The fund balance ratio is a measure of resources available to meet contingencies. It is produced by calculating charter school unrestricted net assets as a percentage of expenses. A ratio of 10% or more indicates that the school has adequate reserves to deal with emergency situations. Most of the charter schools had fund balance ratios in excess of 10% and their fund balance ratio position was **positive**.

- Eighteen of the twenty-seven charter schools reviewed in FY2007 had fund balance ratios greater than 10%. The remaining nine schools, or 33.3% of the total, had fund balance ratios of less than 10%.
- Twenty of the twenty-eight schools reviewed in FY2008 had fund balance ratios greater than 10%. The remaining eight schools, or 28.6% of the total, had fund balance ratios of less than 10%.

## Financial Performance Analysis Findings

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. This analysis evaluates the financial health of the Chicago charter schools using a General Performance Assessment (GPA) calculation. There are seven ratios used to calculate the overall GPA of each charter school: 1) the Current Ratio, 2) the Fixed Assets Ratio, 3) the Capitalization Ratio, 4) the Debt-to-worth Ratio, 5) the Occupancy Ratio, 6) the Instruction Ratio and 7) the Profit Margin Ratio. The results of each ratio evaluation were assigned scores, weighted and then summed to present a financial performance profile of each school. The GPAs of a majority of the Chicago charter schools in both years studied were **high**, indicating a positive financial performance record.

- In FY2007, the overall GPA score for the twenty-two Chicago charter schools reporting consistent financial data was 3.6, which corresponds to a B+ grade. This is a relatively high grade, indicating that the financial health and viability of the Chicago charter schools studied was very good. Ten schools (45.4%) had GPA scores of 3.7 or higher. The remaining twelve schools had GPAs of 2.8 to 3.6, or B grades.
- The overall Chicago charter school GPA score fell slightly from 3.6 in FY2007 to 3.3 in FY2008. This corresponds to a B grade. The grade means that the financial health and viability of the twenty-two Chicago charter schools studied remained high, although it slipped from the prior year. Eight schools (36.3%) had A grades, with GPAs of 3.7 or higher. Eleven schools had B grades, with GPAs between 2.7 and 3.6. Two schools – the Academy of Communications and Technology and the Perspectives Charter School had C grades. Their GPAs were 2.3 and 2.2 respectively. Finally, the Choir Academy charter school received a D grade, with a GPA of just 1.4. Subsequently, the Choir Academy closed in 2008<sup>246</sup> and the Academy of Communications and Technology Charter School ceased providing education services in 2010.<sup>247</sup>

### *Benchmark Analysis Conclusions*

As part of the GPA analysis, we used several indicators to measure individual charter school performance against benchmarked standards.

- **Payroll Ratio < 50%:** A payroll ratio of less than 50% is desirable as it means that personnel costs are not consuming a majority of expenses. In FY2007, ten of twenty-two schools had payroll ratios of less than 50%. In FY2008, the number of charter schools with payroll ratios of 50% or less fell to six of twenty-two as payroll expenses consumed greater shares of most

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<sup>246</sup> “Cash-Strapped Charter School to Close,” from Chicago Breaking News Center, November 20, 2008. See <http://Archive.Chicagobreakingnews.Com/2008/11/A-Financially-Troubled-Chicago-School-Geared.Html>.

<sup>247</sup> ACT voluntarily suspended educational services in 2010 and may continue to provide educational services after submitting the appropriate materials to the Board of Education. Information provided by CPS, April 15, 2011. Also, see [http://www.cps.edu/About\\_CPS/The\\_Board\\_of\\_Education/Documents/BoardActions/2010\\_05/10-0526-EX4.pdf](http://www.cps.edu/About_CPS/The_Board_of_Education/Documents/BoardActions/2010_05/10-0526-EX4.pdf)

schools' resources. Increasing amounts spent on payroll means that less money is available for other school activities and functions. *High payroll ratios may be difficult to sustain over time absent new revenues or reduced costs.*

- **Occupancy Ratio < 25%:** The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. An occupancy ratio of 25% or greater means that the school may be using too many resources to pay for facility expenses. The occupancy ratios of all Chicago charter schools were less than 25% in FY2007 and FY2008. This means that the schools were not using an excessive amount of resources to maintain their facilities.
- **Payroll + Occupancy Ratio < 75%:** This measure combines the payroll and occupancy ratios to provide a measure of the degree to which gross revenues are used to pay for basic operating costs. A ratio higher than 75% indicates that the school may be using too high a proportion of resources to pay for basic operating costs. In both years analyzed a majority of the twenty-two schools had payroll + occupancy ratios of less than 75%. In FY2007, fifteen of the twenty charter schools analyzed had payroll + occupancy ratios of less than 75%, while in FY2008, the number of schools dropped slightly to fourteen. The majority of schools did not use too high a proportion of resources for basic operations in either year.

## **FINANCIAL OPERATIONS ANALYSIS**

CPS uses three indicators to evaluate each charter school's operational performance:

1. **Balanced Budget:** Does the charter school report a balanced budget?
2. **Financial Practices:** Are the school's obligations current and were any material weaknesses uncovered in the financial audit regarding internal controls?
3. **Compliance:** Is the charter school complying with applications and regulations prescribed by the Chicago Public Schools or other relevant entities.

The Office of New Schools gives each charter school a rating of High, Medium, or Low for each of the operations indicators. A "High" rating means that the charter school's performance meets or exceeds expectations. A "Middle" rating indicates that the charter school meets minimum requirements for the indicator. A "Low" rating means that the charter school's performance does not meet expectations.<sup>248</sup>

The Civic Federation has added a fourth indicator to the CPS operations analysis: audit opinions from the individual school's financial statements.

This section of the report provides a summary and evaluation of the three CPS operational indicators for FY2007 and FY2008 and a review of audit opinions for the schools' financial statements for those two years. Twenty six charter schools provided information to CPS in FY2007, while twenty-eight provided information in FY2008.

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<sup>248</sup> Chicago Public Schools Office of New Schools. *Charter Schools Performance Report 2007-08*, p. 46.

### ***Budget Position (Balanced Budget)***

The annual CPS charter school Performance Reports include information about budget position or whether each charter school reported a balanced budget for the year of the report and if they project a balanced budget for the forthcoming fiscal year. The exhibit below summarizes changes in the reported actual budget positions of 28 of the 30 charter schools<sup>249</sup> between FY2007 and FY2008 using five classifications:

1. Surplus: The charter school reported a surplus in both years.
2. Improved: The charter school reported a change from a deficit situation to a balanced budget.
3. Stable: The charter school reported a change from budget surplus to a balanced budget or it reported a balanced budget in both years.
4. Declined: The charter school reported a change from a budget surplus or a balanced budget to a budget deficit.
5. Negative: The charter school reported a deficit in both fiscal years.

Ten of the twenty-eight charter schools reported a surplus in both fiscal years reviewed, while two charter schools reported a budgetary improvement and seven were in a position of stability. These nineteen schools – 67.9% of the total – were therefore in a favorable or positive budget situation. The remaining nine charter schools, or 32.1% of the total, experienced budgetary difficulties demonstrated by a decline in their budget position to a deficit in FY2008, or two years of recurring deficits.

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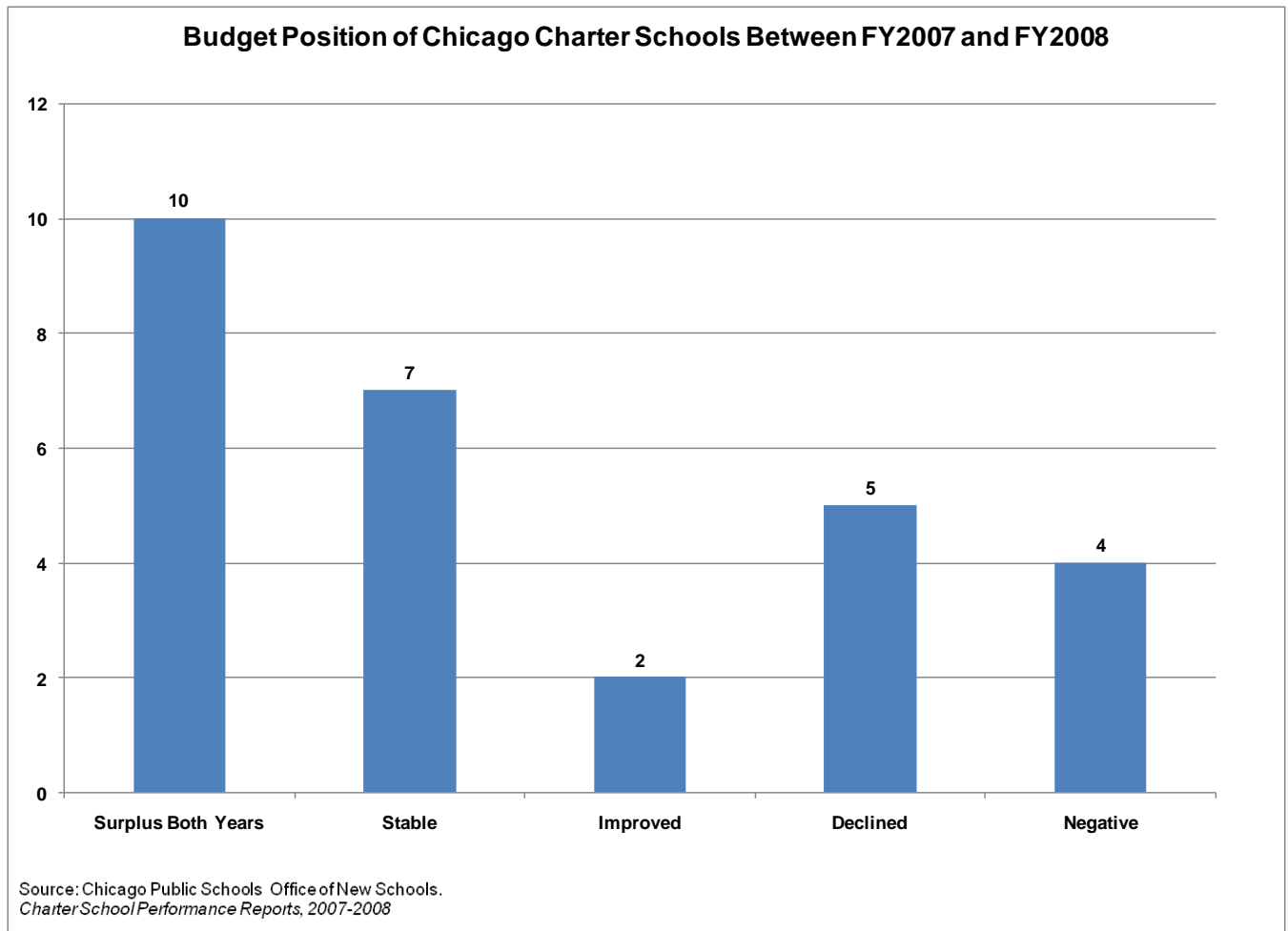
<sup>249</sup> Two of the charter schools opened in 2008. Their first reports would be in the FY2009 *Performance Report*.

| CHICAGO CHARTER SCHOOL ACTUAL BUDGET POSITION FY2007 AND FY2008 |  |   |  |  |
|---|--|---|--|--|
| Surplus (10)  | Improved (2)                               | Stable (7)                                      | Declined (5)   | Negative (4)                             |
| Catalyst Charter School - Howland                               | Chicago Virtual Charter School             | ASPIRA Charter School                           | Architecture, Construction, and Engineering (ACE) Technical Charter School | Academy of Communications and Technology |
| Chicago International Charter School                            | Betty Shabazz International Charter School | Bronzeville Lighthouse Charter School           | Choir Academy Charter School of Chicago                                    | Perspectives Charter School              |
| Chicago Mathematics and Science Academy                         |  | Erie Elementary Charter School                  | Alain Locke Charter Academy  | University of Chicago Charter School     |
| Galapagos Elementary Charter School                             |  | Noble Street Charter School                     | Passages Charter School  | Youth Connection Charter School*         |
| KIPP Ascend Academy Charter School                              |  | North Lawndale College Prep Charter School      | UNO Charter School   |  |
| L.E.A.R.N. Charter School                                       |  | Urban Prep Academy for Young Men Charter School |  |  |
| Legacy Charter School   |  | Young Women's Leadership Charter School         |  |  |
| Namaste Charter School  |  |   |  |  |
| Polaris Charter Academy*  |  |   |  |  |
| Providence Englewood Charter School                             |  |   |  |  |

\* In operation in FY2008 only

Source: Chicago Public Schools Office of New Schools. *Charter Schools Performance Reports 2006-07 and 2007-08*.

As the next exhibit shows, the majority of the charter schools reported balanced budgets in both FY2007 and FY2008. Seventeen of the twenty-eight charter schools (60.7%) reported surpluses and/or balanced budgets in those two years. Two charter schools budgetary position improved between FY2007 and FY2008, moving from a deficit situation to a balanced budget. Nine charter schools (32.1%) reported a negative budget situation over the two-year course of this review. Five schools reported a change from a budget surplus or a balanced budget to a budget deficit while four others reported a deficit in both fiscal years.



FY2009 budget projections show that five charter schools reporting budget deficits in FY2008 project a surplus in FY2009:

1. The Academy of Communications and Technology;
2. The Architecture, Construction, and Engineering (ACE) Technical Charter School;
3. The Choir Academy Charter School;
4. Passages Charter School;
5. Perspective Charter School;
6. The University of Chicago Charter School; and
7. The UNO Charter School.

Two of the charter schools reporting deficits in FY2008 projected a deficit in FY2009, the Alain Locke Academy and the Youth Connection Charter school. Finally, two schools in a positive budgetary situation in FY2008 projected deficits in FY2009, the Bronzeville Lighthouse Charter School and the Providence Englewood Charter School.<sup>250</sup>

<sup>250</sup> Chicago Public Schools Office of New Schools. *Charter Schools Performance Report 2007-08*.



***Financial Practices***

The financial practices indicator examines whether each charter school’s obligations are current and whether the annual financial audit uncovered any material weaknesses regarding internal controls.

*Charter School Financial Practices in FY2007*

In FY2007, sixteen of the twenty-six charter schools in operation received a High rating. For these schools, obligations were current and no material weaknesses regarding internal controls discovered during the financial audit

Nine schools were given a Middle rating due to a problem with certain financial practices. ASPIRA charter school received a middle rating because its pension payments were not current. Minor weaknesses in internal controls were reported for two schools – Chicago International Charter School and Erie Charter School. The auditors found more significant material weaknesses in the internal controls of the other seven schools.

The Academy of Communications and Technology charter school was the only school to receive a Low rating in FY2007. This was due to the reporting of a repeated weakness regarding internal controls.

| <b>CHICAGO CHARTER SCHOOL FINANCIAL PRACTICES FY2007</b>                   |   |  |
|--|---|--|
| <b>High Rating (16)</b>  | <b>Middle Rating (9)</b>                | <b>Low Rating (1)</b>                    |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | ASPIRA Charter School                   | Academy of Communications and Technology |
| Bronzeville Lighthouse Charter School                                      | Chicago Mathematics and Science Academy |  |
| Catalyst Charter School - Howland  | Erie Elementary Charter School          |  |
| Chicago International Charter School                                       | Legacy Charter School                   |  |
| Chicago Virtual Charter School   | Namaste Charter School                  |  |
| Choir Academy Charter School of Chicago                                    | Perspectives Charter School             |  |
| Galapagos Elementary Charter School  | University of Chicago Charter School    |  |
| KIPP Ascend Academy Charter School   | UNO Charter School                      |  |
| L.E.A.R.N. Charter School  | Young Women's Leadership Charter School |  |
| Alain Locke Charter Academy  |   |  |
| Noble Street Charter School  |   |  |
| North Lawndale College Prep Charter School                                 |   |  |
| Passages Charter School  |   |  |
| Providence Englewood Charter School  |   |  |
| Betty Shabazz International Charter School                                 |   |  |
| Urban Prep Academy for Young Men Charter School                            |   |  |

Source: Chicago Public Schools Office of New Schools. *Charter Schools Performance Reports 2006-07*.

*Charter School Financial Practices in FY2008*

In FY2008, the financial practices of the twenty-eight Chicago charter schools in operation improved. Twenty-three charter schools received a High rating. Just two schools were given a Middle rating due to material weaknesses regarding internal controls. Three charter schools received a Low rating.

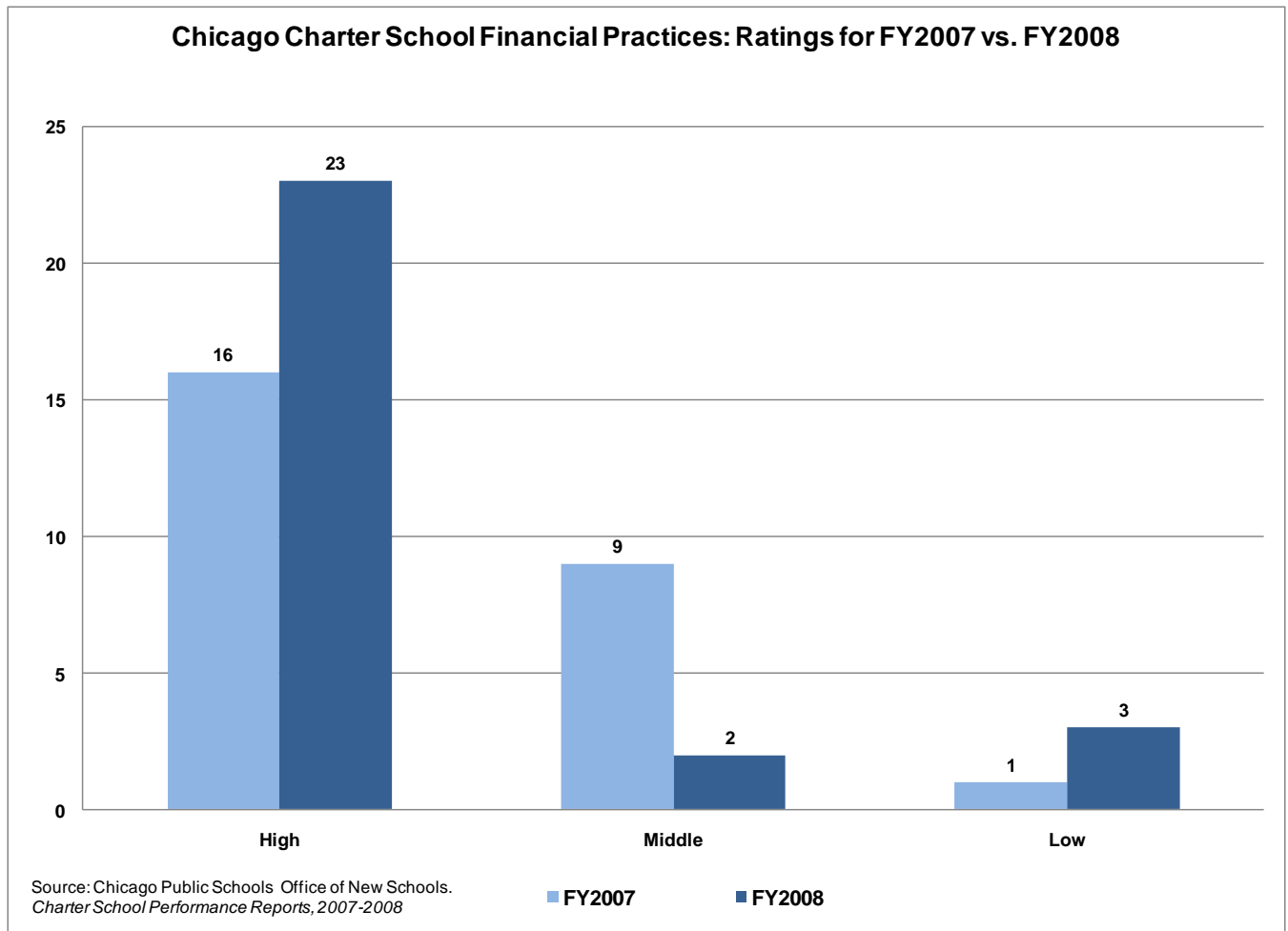
The Academy of Communications and Technology charter school continued to have a repeated weakness regarding internal controls that had not been addressed, Chicago Mathematics and Science academy had significant deficiencies regarding internal controls and the Choir Academy Charter School was delinquent in making lender payments.<sup>251</sup>

| <b>CHICAGO CHARTER SCHOOL FINANCIAL PRACTICES FY2008</b>                   |                             |  |
|--|-----------------------------|--|
| <b>High Rating (23)</b>  | <b>Middle Rating (2)</b>    | <b>Low Rating (3)</b>                    |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | Perspectives Charter School | Academy of Communications and Technology |
| ASPIRA Charter School  | Polaris Charter School      | Chicago Mathematics and Science Academy  |
| Bronzeville Lighthouse Charter School                                      |                             | Choir Academy Charter school             |
| Catalyst Charter School - Howland  |                             |  |
| Chicago International Charter school                                       |                             |  |
| Chicago Virtual Charter school   |                             |  |
| Erie Elementary Charter School   |                             |  |
| Galapagos Elementary Charter School  |                             |  |
| KIPP Ascend Academy Charter School   |                             |  |
| L.E.A.R.N. Charter School  |                             |  |
| Legacy Charter School  |                             |  |
| Alain Locke Charter Academy  |                             |  |
| Namaste Charter School   |                             |  |
| Noble Street Charter School  |                             |  |
| North Lawndale College Prep Charter School                                 |                             |  |
| Passages Charter School  |                             |  |
| Providence Englewood Charter School  |                             |  |
| Betty Shabazz International Charter School                                 |                             |  |
| University of Chicago Charter School                                       |                             |  |
| UNO Charter School   |                             |  |
| Urban Prep Academy for Young Men Charter School                            |                             |  |
| Young Women's Leadership Charter School                                    |                             |  |
| Youth Connection Charter School  |                             |  |

Source: Chicago Public Schools Office of New Schools. *Charter Schools Performance Reports 2007-08*.

Overall, the ratings for Chicago’s charter schools **improved** between FY2007 and FY2008, with the number of schools receiving a High rating rising from sixteen to twenty-three. Concurrently, the number of schools with a Middle rating declined from nine to two. The number of schools with a Low rating rose from one in FY2007 to three one year later.

<sup>251</sup> Chicago Public Schools Office of New Schools. *Charter Schools Performance Report 2007-08*.



### ***Compliance***

The next two exhibits show rates of compliance by Chicago charter schools with required CPS and other entity applications and regulations in FY2007 and FY2008.<sup>252</sup> In FY2007, over 70% or nineteen of the twenty-seven schools then operating received a High rating, which means they were fully compliant. Five schools had Middle ratings. In these cases, there were one to three findings of noncompliance. The two schools with Low ratings – Chicago International Charter School and Providence Englewood Charter School – each had multiple repeat findings of noncompliance.

<sup>252</sup> Compliance requirements include adherence to a variety of state statutes, CPS regulations and contractual agreements such as regarding criminal background checks of personnel, school records maintenance, administration of medication, abused and neglected child reporting requirements, open enrollment and lottery procedures, financial management and compliance charter agreements, infectious disease policies and rules, etc.

| <b>CHICAGO CHARTER SCHOOL COMPLIANCE RATINGS FY2007</b>                    |                                       |                                      |
|--|---------------------------------------|--------------------------------------|
| <b>High Rating (19)</b>  | <b>Middle Rating (5)</b>              | <b>Low Rating (2)</b>                |
| Academy of Communications and Technology                                   | ASPIRA Charter School                 | Chicago International Charter School |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | Bronzeville Lighthouse Charter School | Providence Englewood Charter School  |
| Catalyst Charter School - Howland  | Chicago Virtual Charter School        |                                      |
| Chicago Mathematics and Science Academy                                    | Erie Elementary Charter School        |                                      |
| Choir Academy Charter School of Chicago                                    | Galapagos Elementary Charter School   |                                      |
| KIPP Ascend Academy Charter School   |                                       |                                      |
| L.E.A.R.N. Charter School  |                                       |                                      |
| Legacy Charter School  |                                       |                                      |
| Alain Locke Charter Academy  |                                       |                                      |
| Namaste Charter School   |                                       |                                      |
| Noble Street Charter School  |                                       |                                      |
| North Lawndale College Prep Charter School                                 |                                       |                                      |
| Passages Charter School  |                                       |                                      |
| Perspectives Charter School  |                                       |                                      |
| Betty Shabazz International Charter School                                 |                                       |                                      |
| University of Chicago Charter School                                       |                                       |                                      |
| UNO Charter School   |                                       |                                      |
| Urban Prep Academy for Young Men Charter School                            |                                       |                                      |
| Young Women's Leadership Charter School                                    |                                       |                                      |

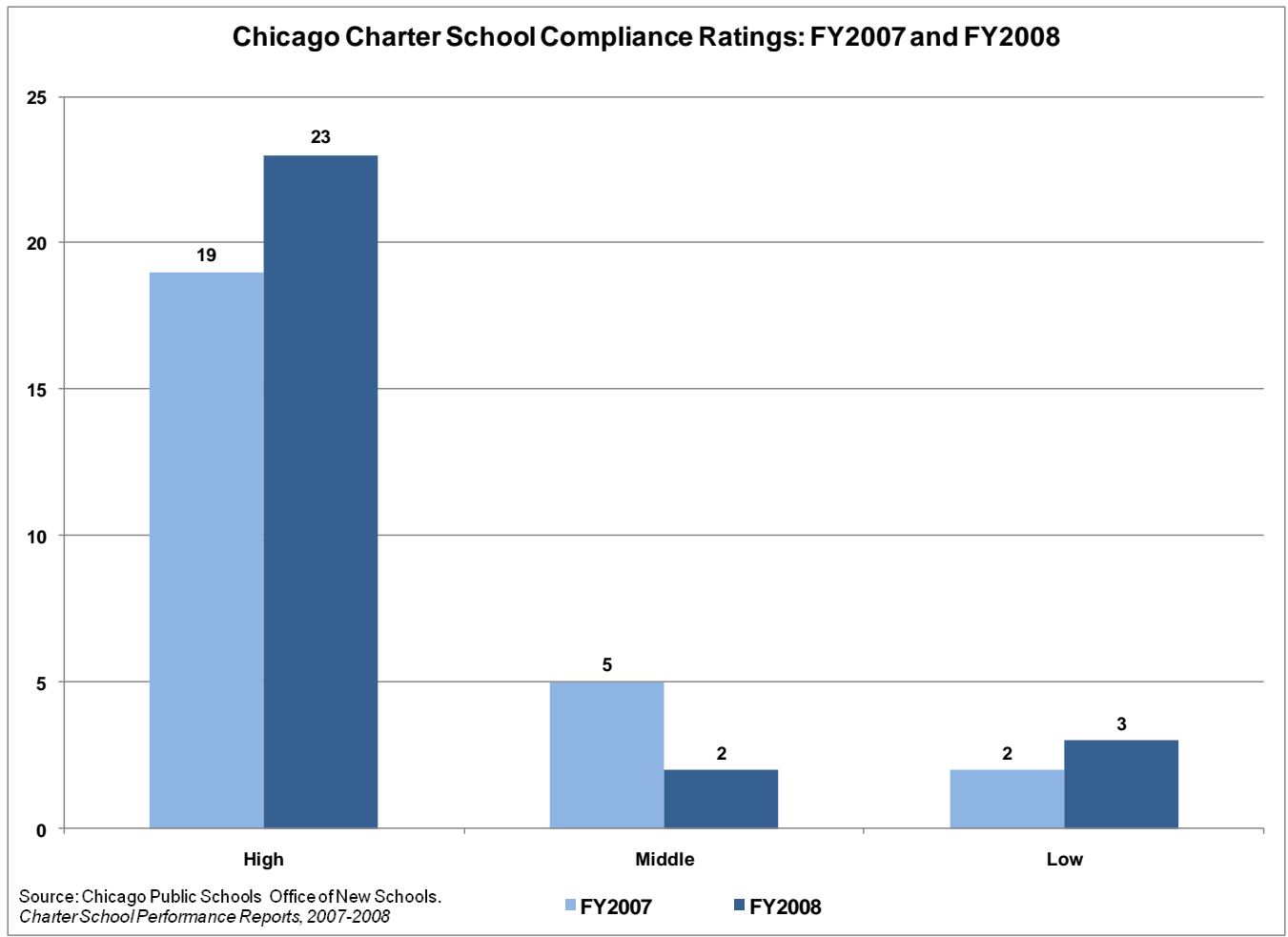
Source: Chicago Public Schools Office of New Schools. *Charter Schools Performance Reports 2006-07*.

In FY2008, the number of charter schools in full compliance with required applications and regulations rose from nineteen to twenty- three or 85% of the twenty-eight charter schools in operation. Two schools received a Middle rating and three schools received a Low rating. It is important to note that different schools received Middle or Low ratings in FY2008 than in FY2007.

| <b>CHICAGO CHARTER SCHOOL COMPLIANCE RATINGS FY2008</b>                    |                             |  |
|--|-----------------------------|--|
| <b>High Rating (23)</b>  | <b>Middle Rating (2)</b>    | <b>Low Rating (3)</b>                    |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | Perspectives Charter School | Academy of Communications and Technology |
| ASPIRA Charter School  | Polaris Charter Academy     | Chicago Mathematics and Science Academy  |
| Bronzeville Lighthouse Charter School                                      |                             | Choir Academy Charter School of Chicago  |
| Catalyst Charter School - Howland  |                             |  |
| Chicago International Charter School                                       |                             |  |
| Chicago Virtual Charter School   |                             |  |
| Erie Elementary Charter School   |                             |  |
| Galapagos Elementary Charter School  |                             |  |
| KIPP Ascend Academy Charter School   |                             |  |
| L.E.A.R.N. Charter School  |                             |  |
| Legacy Charter School  |                             |  |
| Alain Locke Charter Academy  |                             |  |
| Namaste Charter School   |                             |  |
| Noble Street Charter School  |                             |  |
| North Lawndale College Prep Charter School                                 |                             |  |
| Passages Charter School  |                             |  |
| Providence Englewood Charter School  |                             |  |
| Betty Shabazz International Charter School                                 |                             |  |
| University of Chicago Charter School                                       |                             |  |
| UNO Charter School   |                             |  |
| Urban Prep Academy for Young Men Charter School                            |                             |  |
| Young Women's Leadership Charter School                                    |                             |  |
| Youth Connection Charter School (YCCS)                                     |                             |  |

Source: Chicago Public Schools Office of New Schools. *Charter Schools Performance Reports 2007-08*.

In sum, compliance with CPS regulations **increased** between FY2007 and FY2008. The number of charter schools receiving a high rating rose from nineteen to twenty three or 85% of the twenty eight charter schools in operation. The number of schools receiving a Middle rating dropped from five to two. Three schools received a Low rating in FY2008, up from two the previous year. It is important to note different schools received Middle or Low ratings in FY2007 and FY2008.



### ***Audit Opinions***

All Chicago charter schools prepare and publish audited financial statements. As nonprofit entities, these statements are prepared according to the specifications of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) Number 117, “Financial Statements of Not-For-Profit Organizations.”<sup>253</sup>

Annually, independent audit firms review the charter schools’ financial statements to determine if they have been prepared according to the generally accepted accounting principles (GAAP) established by FASB. If the auditor reports an unqualified or “clean” audit opinion it means that the statements were “fairly presented” in accordance with generally accepted nonprofit accounting principles. Therefore, they are in compliance with the nonprofit accounting standards. A “qualified” opinion would mean that there were certain items in the financial statements not in compliance with GAAP.

<sup>253</sup> Financial Accounting Standards Board. *Statement of Financial Accounting Standards No. 117: Financial Statements of Not-for-Profit Organizations* (as amended). (Norwalk, CT: Financial Accounting Standards Board, 2008).

*All of the Chicago schools received unqualified or “clean” audit opinions in FY2007 and FY2008. The information was found in the individual charter school audited financial statements.*

## **FISCAL VIABILITY ANALYSIS**

Charter schools must be fiscally viable if they are to succeed in the long term. One commonly used indicator used to assess fiscal viability was *Year-end balances or Change in Net assets*. This indicator shows whether each school had a deficit or a surplus in the FY2007 and FY2008 academic years.<sup>254</sup> Providing complete or specific explanations for findings for individual charter schools is beyond the scope of this discussion. The data sources for this analysis were charter school audited financial statements.

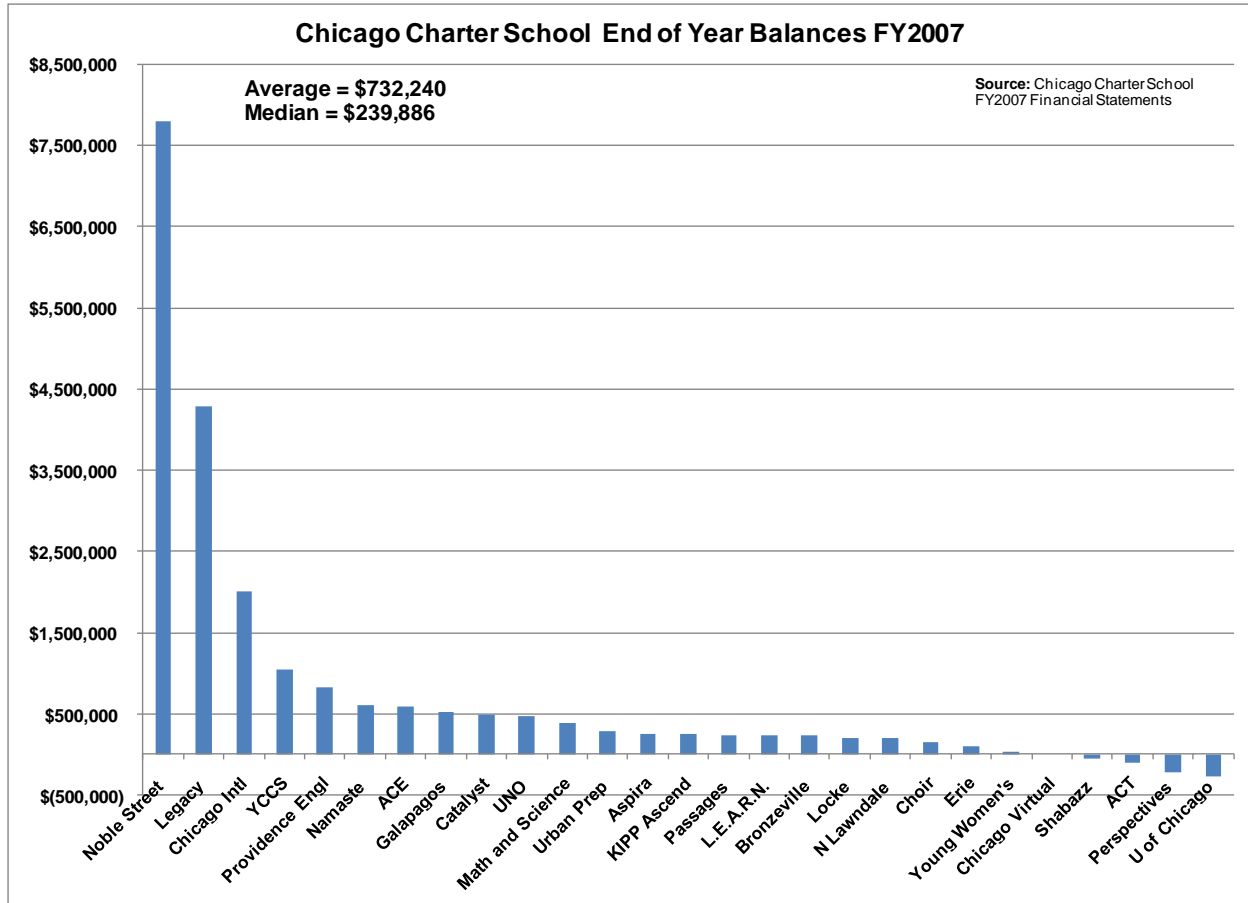
### ***Year-End Balances (Change in Net Assets)***

The year-end fund balance is the amount of money reported when actual expenses are subtracted from revenues. It is reported as the “change in net assets” in charter school audited statements of activities. If it is negative, the school has a deficit for that fiscal year. A positive year-end balance indicates a surplus. These year-end fund balances were reported on an accrual basis

In FY2007, the median year-end balance for the twenty-seven Chicago charter schools producing audited financial statements was \$239,886. The balances ranged from a low of -\$279,003 for the University of Chicago charter schools to a high of \$7.8 million for the Noble Street Charter Schools. Four charter schools – the Betty Shabazz International Charter School, Perspectives Charter School, Academy of Communications and Technology and the University of Chicago Charter Schools – reported deficits.

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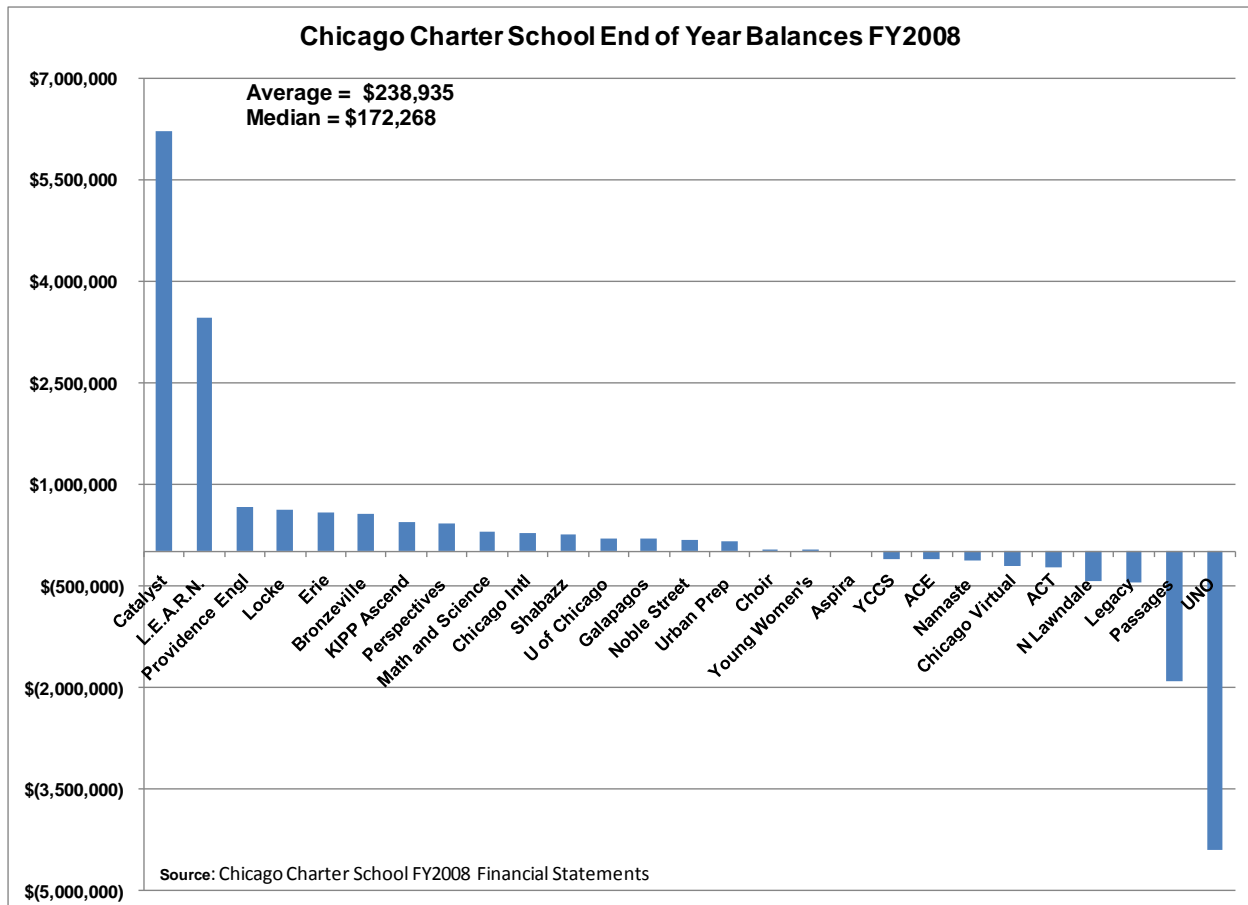
<sup>254</sup> Gary Miron and Christopher Nelson. *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*. The Evaluation Center, Western Michigan State University. October 2000, pp. 57-58.



In FY2008, the median Chicago charter school end-of-year balance was \$172,268. The balances ranged from a low of -\$4.4 million for the UNO charter schools to a high of \$6.2 million for the Catalyst charter school. The number of charter schools reporting deficits rose from four in FY2007 to nine in FY2008. They included:

1. Academy of Communications and Technology;
2. Architecture, Construction, and Engineering (ACE) Technical Charter School;
3. Chicago Virtual Charter School;
4. Legacy Charter School;
5. Namaste Charter School;
6. North Lawndale College Prep Charter School;
7. Passages Charter School;
8. UNO Charter School; and
9. Youth Connection Charter School (YCCS)





### *Year-End Balance Analysis Summary*

A review of year-end balances revealed that the Chicago charter schools were **fiscally viable** in FY2007 and FY2008.

- In FY2007, only four of the twenty-seven charter schools providing financial data reported deficits. The median year-end balance for those schools was \$239,886.
- In FY2008, the number of charter schools reporting deficits rose to nine. The median Chicago charter school end-of-year balance in that year was \$172,268.
- The increase in the number of charter schools reporting deficits between FY2007 and FY2008 bears watching in future years.<sup>255</sup>

<sup>255</sup> It is important to note that FY2009 Chicago charter school budget projections show that five charter schools reporting budget deficits in FY2008 project a surplus in FY2009, while four schools reported a deficit. The FY2009 audited financial statements will provide final information about FY2009 deficits and surpluses. See Chicago Public Schools Office of New Schools. *Charter Schools Performance Report 2007-08*.

## FUND BALANCE RATIO ANALYSIS

The fund balance ratio is a measure of resources available to use for emergencies or contingencies. It is prudent for all organizations to set aside some amount of reserves to be used for these purposes. Failure to establish reserves means that the organization may be forced to reduce spending on core programs or borrow funds to meet obligations if there is an unforeseen financial problem. If higher ratios are reported, then financial risk is reduced as the organization can draw on reserve funds to meet contingencies. If lower ratios are reported, the organization faces greater risk in meeting contingent expenses.

The fund balance ratio is produced by calculating charter school unrestricted net assets as a percentage of expenses. Unrestricted net assets can be used for any purpose by an organization. The data are drawn from the FY2007 and FY2008 charter school audited financial statements. Twenty-seven charter schools prepared audited financial statements in FY2007 and twenty-eight the following year.

What is an appropriate fund balance ratio? When calculating each school district's financial profile, the Illinois State Board of Education requires that school districts maintain a fund balance ratio of 10% or more to receive a "financial Recognition" rating and thus avoid being placed on a financial watchlist.<sup>256</sup> If the ratio is greater than 10%, the district receives progressively better ratings.<sup>257</sup> As it is important for school districts to maintain adequate reserves to meet for contingencies, it is also important for charter schools to do the same. This is particularly true in the early years after formation as start up costs can be high. In addition, the schools may need to reserve funds for future planned expansions or capital campaigns. Thus, the Civic Federation considers a charter school fund balance ratio of 10% or more "positive" while a fund balance of less than 10% would be considered "negative."

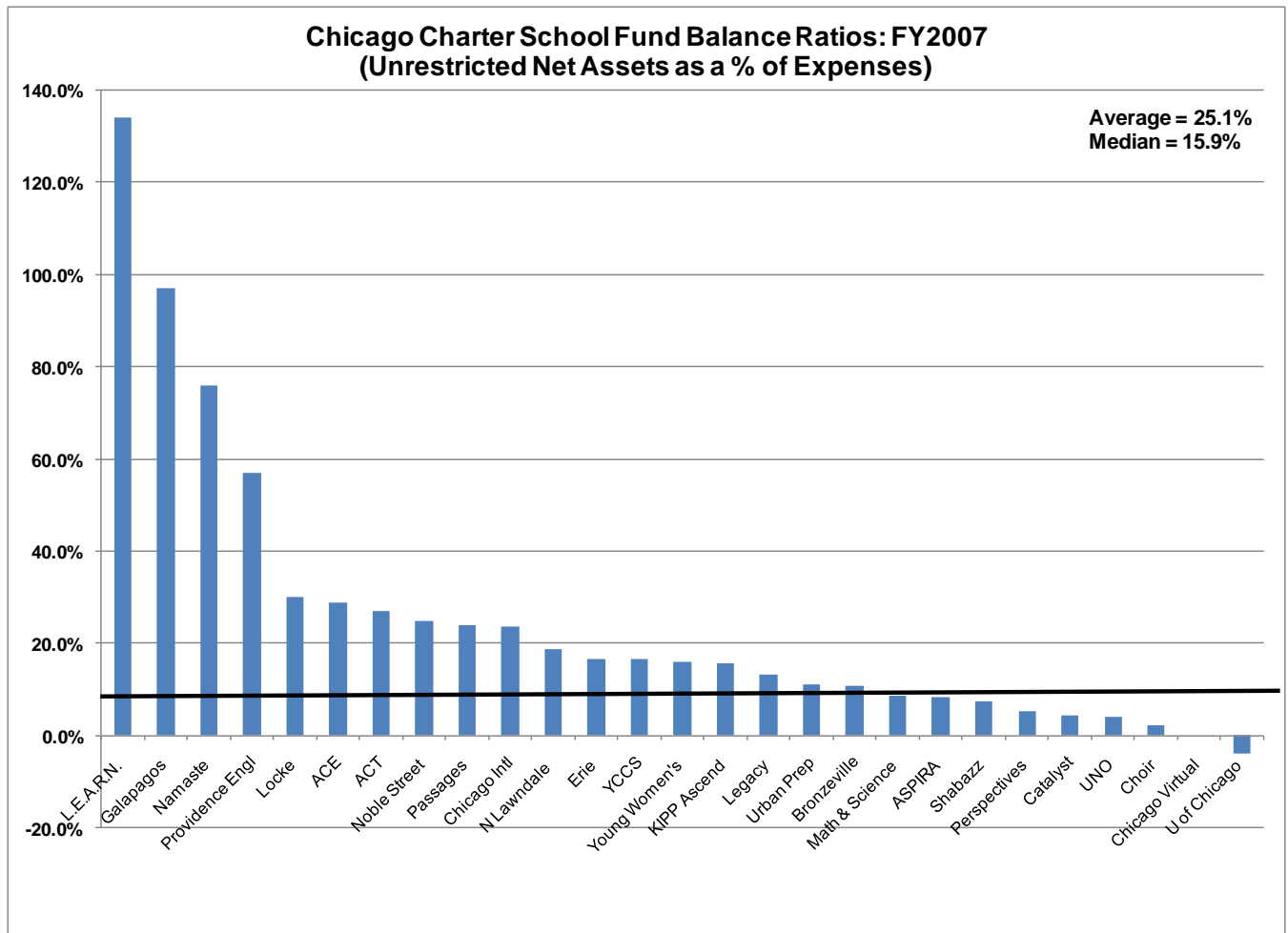
In FY2007, the mean or average charter school fund balance ratio was 25.1%. The median ratio – which is the midpoint of the range of all charter school ratios – was 15.9%. The fund balance ratios ranged from a low of -4.0% for the University of Chicago Charter Schools to a high of 133.9% for the L.E.A.R.N. Charter School. The dotted line on the chart shows the 10% minimum deemed necessary for a viable fund balance ratio.

The majority of the Chicago charter schools in FY2007 – eighteen of the twenty-seven reviewed – had fund balance ratios greater than 10%. These ratios ranged from 10.7% to 133.9%. The remaining nine schools, or 33.3% of the total, had fund balance ratios of less than 10%. *These findings indicate that the fund balance ratio of the Chicago charter schools in FY2007 was positive in the aggregate.*

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<sup>256</sup> Illinois State Board of Education. "Financial Assurance and Accountability System." See [isbe.state.il.us/board/meetings/2000-2002/march01meeting/3OIFAASQA.pdf](http://isbe.state.il.us/board/meetings/2000-2002/march01meeting/3OIFAASQA.pdf).

<sup>257</sup> See Illinois State Board of Education. *The School District Financial Profile*. March 2003.



The next exhibit shows the dollar amounts of unrestricted net assets, expenses and the resulting fund balance ratio for each of the charter schools for which data were available. The minimum amount of unrestricted net assets was -\$354,848 for the University of Chicago charter schools and the maximum amount was \$11,759,587 for the Chicago International charter school. The mean unrestricted net asset amount for all Chicago charter schools in FY2007 was \$1,382,362. The median amount was \$611,443. For all charter schools, the total amount of unrestricted net assets was \$37.3 million. The total fund balance ratio for all schools was 19.2%

| <b>Chicago Charter School Fund Balance Ratios FY2007</b>                   |                                |                       |              |
|--|--------------------------------|-----------------------|--------------|
| <b>Charter School</b>  | <b>Unrestricted Net Assets</b> | <b>Expenses</b>       | <b>Ratio</b> |
| L.E.A.R.N. Charter School  | \$ 4,155,316                   | \$ 3,102,564          | 133.9%       |
| Galapagos Elementary Charter School  | \$ 1,497,272                   | \$ 1,542,266          | 97.1%        |
| Namaste Charter School   | \$ 1,633,163                   | \$ 2,147,985          | 76.0%        |
| Providence Englewood Charter School  | \$ 1,066,220                   | \$ 1,874,546          | 56.9%        |
| Alain Locke Charter Academy  | \$ 1,299,705                   | \$ 4,322,428          | 30.1%        |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | \$ 967,688                     | \$ 3,348,392          | 28.9%        |
| Academy of Communications and Technology                                   | \$ 907,801                     | \$ 3,370,742          | 26.9%        |
| Noble Street Charter School  | \$ 3,650,445                   | \$ 14,718,492         | 24.8%        |
| Passages Charter School  | \$ 499,030                     | \$ 2,084,733          | 23.9%        |
| Chicago International Charter School                                       | \$ 11,759,587                  | \$ 49,642,665         | 23.7%        |
| North Lawndale College Prep Charter School                                 | \$ 913,089                     | \$ 4,837,805          | 18.9%        |
| Erie Elementary Charter School   | \$ 271,730                     | \$ 1,641,635          | 16.6%        |
| Youth Connection Charter School (YCCS)                                     | \$ 3,802,051                   | \$ 23,077,206         | 16.5%        |
| Young Women's Leadership Charter School                                    | \$ 734,962                     | \$ 4,618,354          | 15.9%        |
| KIPP Ascend Academy Charter School   | \$ 523,615                     | \$ 3,345,320          | 15.7%        |
| Legacy Charter School  | \$ 316,204                     | \$ 2,395,890          | 13.2%        |
| Urban Prep Academy for Young Men Charter School                            | \$ 282,803                     | \$ 2,557,639          | 11.1%        |
| Bronzeville Lighthouse Charter School                                      | \$ 288,619                     | \$ 2,698,473          | 10.7%        |
| Chicago Mathematics and Science Academy                                    | \$ 269,715                     | \$ 3,146,554          | 8.6%         |
| ASPIRA Charter School  | \$ 986,815                     | \$ 11,608,119         | 8.5%         |
| Betty Shabazz International Charter School                                 | \$ 414,932                     | \$ 5,537,174          | 7.5%         |
| Perspectives Charter School  | \$ 574,373                     | \$ 10,658,105         | 5.4%         |
| Catalyst Charter School - Howland  | \$ 210,166                     | \$ 4,794,172          | 4.4%         |
| UNO Charter School   | \$ 611,443                     | \$ 14,614,443         | 4.2%         |
| Choir Academy Charter School of Chicago                                    | \$ 41,883                      | \$ 2,005,361          | 2.1%         |
| Chicago Virtual Charter School   | \$ -                           | \$ 2,015,590          | 0.0%         |
| University of Chicago Charter School                                       | \$ (354,848)                   | \$ 8,901,744          | -4.0%        |
| <b>TOTAL</b>   | <b>\$ 37,323,779</b>           | <b>\$ 194,608,397</b> | <b>19.2%</b> |
| <b>AVERAGE</b>   | <b>\$ 1,382,362</b>            | <b>\$ 7,207,718</b>   | <b>25.1%</b> |
| <b>MEDIAN</b>  | <b>\$ 611,443</b>              | <b>\$ 3,348,392</b>   | <b>15.9%</b> |

Source: Chicago Charter School FY2007-2008 Financial Statements

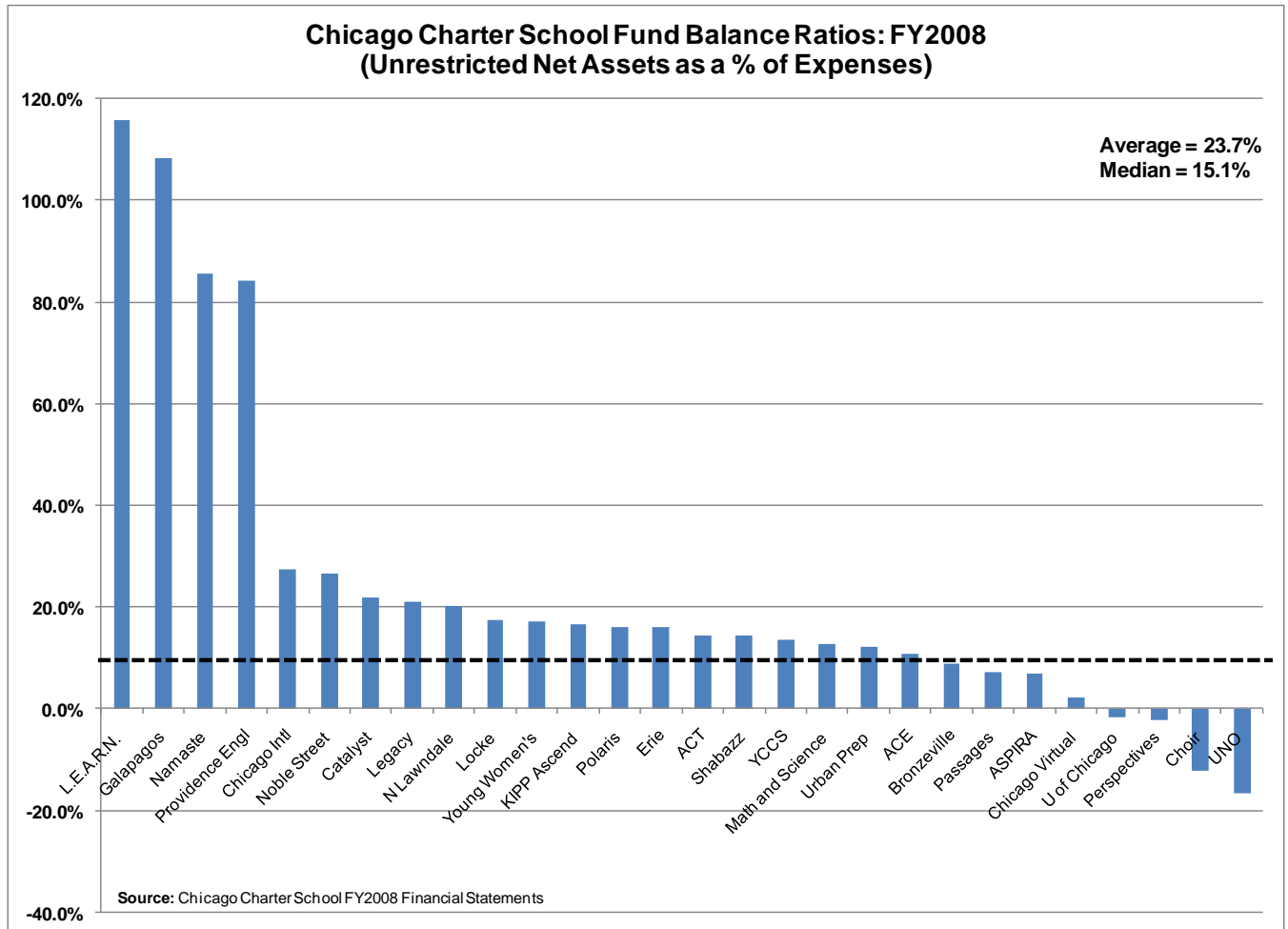
In FY2008, the average charter school fund balance ratio was 23.7%, a slight dip from the previous year. The median ratio was 15.1%. The fund balance ratios ranged from a low of -16.5% for the UNO charter schools to a high of 115.7% for the L.E.A.R.N. Charter School. Negative fund balance ratios are shown for four charter schools because negative unrestricted net assets were reported. Explanations were not offered in the financial statements for the Choir Academy Charter School and the University of Chicago charter schools. The UNO Charter Schools reported that its unrestricted net assets deficit was a result of the costs associated with the issuance and defeasance of bonds for campus construction and rehabilitation. As new campuses come into operation, the school management anticipated that those campuses would generate sufficient funds to address the situation.<sup>258</sup> The Perspectives charter school reported that its unrestricted net assets deficit was due to school costs associated with opening four new campuses. Perspectives management stated that it planned to address the deficit with cost reductions, a slower pace of new school openings and increased capacity utilization.<sup>259</sup>

The majority of the Chicago charter schools in FY2008 – twenty of the twenty-eight schools reviewed – had fund balance ratios greater than 10%. These ratios ranged from 10.7% to 115.7%. The remaining eight schools, or 28.6% of the total, had fund balance ratios of less than

<sup>258</sup> UNO Charter School FY2008 Financial Statements, Note 15: Net Deficit, p. 16.

<sup>259</sup> Perspectives Charter School FY2008 Financial Statement, Note 14: Net Deficit, p. 20.

10%. These findings indicate that the fund balance ratio of the Chicago charter schools in FY2008 was positive in the aggregate.



A review of the dollar amounts of unrestricted net assets reported in FY2008 reveals that the minimum amount was -\$4,368,620 for the UNO Charter schools while the maximum amount reported was \$15,619,681 for the Chicago International Charter School. The average amount of unrestricted net assets for all Chicago schools reporting was \$1,452,824 while the median amount was \$588,725. The total amount of unrestricted net assets in FY2008 for all charter schools was \$40.7 million while the total fund balance ratio was 16.1%.

| Chicago Charter School Fund Balance Ratios FY2008                          |                            |                       |              |
|--|----------------------------|-----------------------|--------------|
| Charter School   | Unrestricted<br>Net Assets | Expenses              | Ratio        |
| L.E.A.R.N. Charter School  | \$ 4,196,341               | \$ 3,626,191          | 115.7%       |
| Galapagos Elementary Charter School  | \$ 2,069,079               | \$ 1,909,756          | 108.3%       |
| Namaste Charter School   | \$ 2,263,188               | \$ 2,644,215          | 85.6%        |
| Providence Englewood Charter School  | \$ 1,787,188               | \$ 2,125,178          | 84.1%        |
| Chicago International Charter School                                       | \$ 15,619,681              | \$ 56,827,392         | 27.5%        |
| Noble Street Charter School  | \$ 6,469,273               | \$ 24,464,835         | 26.4%        |
| Catalyst Charter School - Howland  | \$ 359,054                 | \$ 1,653,682          | 21.7%        |
| Legacy Charter School  | \$ 641,792                 | \$ 3,062,607          | 21.0%        |
| North Lawndale College Prep Charter School                                 | \$ 1,307,303               | \$ 6,472,624          | 20.2%        |
| Alain Locke Charter Academy  | \$ 837,158                 | \$ 4,835,137          | 17.3%        |
| Young Women's Leadership Charter School                                    | \$ 817,903                 | \$ 4,792,291          | 17.1%        |
| KIPP Ascend Academy Charter School   | \$ 596,591                 | \$ 3,620,625          | 16.5%        |
| Polaris Charter Academy  | \$ 310,988                 | \$ 1,930,186          | 16.1%        |
| Erie Elementary Charter School   | \$ 342,659                 | \$ 2,152,478          | 15.9%        |
| Academy of Communications and Technology                                   | \$ 580,859                 | \$ 4,050,378          | 14.3%        |
| Betty Shabazz International Charter School                                 | \$ 912,831                 | \$ 6,393,142          | 14.3%        |
| Youth Connection Charter School (YCCS)                                     | \$ 3,772,091               | \$ 27,625,146         | 13.7%        |
| Chicago Mathematics and Science Academy                                    | \$ 463,908                 | \$ 3,635,399          | 12.8%        |
| Urban Prep Academy for Young Men Charter School                            | \$ 440,676                 | \$ 3,616,765          | 12.2%        |
| Architecture, Construction, and Engineering (ACE) Technical Charter School | \$ 536,438                 | \$ 5,024,244          | 10.7%        |
| Bronzeville Lighthouse Charter School                                      | \$ 259,995                 | \$ 2,974,128          | 8.7%         |
| Passages Charter School  | \$ 197,578                 | \$ 2,736,188          | 7.2%         |
| ASPIRA Charter School  | \$ 1,014,885               | \$ 14,514,805         | 7.0%         |
| Chicago Virtual Charter School   | \$ 67,306                  | \$ 3,050,607          | 2.2%         |
| University of Chicago Charter School                                       | \$ (193,167)               | \$ 11,570,946         | -1.7%        |
| Perspectives Charter School  | \$ (432,138)               | \$ 18,874,389         | -2.3%        |
| Choir Academy Charter School of Chicago                                    | \$ (191,760)               | \$ 1,573,516          | -12.2%       |
| UNO Charter School   | \$ (4,368,620)             | \$ 26,423,172         | -16.5%       |
| <b>TOTAL</b>   | <b>\$ 40,679,080</b>       | <b>\$ 252,180,022</b> | <b>16.1%</b> |
| <b>AVERAGE</b>   | <b>\$ 1,452,824</b>        | <b>\$ 9,006,429</b>   | <b>23.7%</b> |
| <b>MEDIAN</b>  | <b>\$ 588,725</b>          | <b>\$ 3,630,795</b>   | <b>15.1%</b> |

Source: Chicago Charter School FY2007-2008 Financial Statements.

## FINANCIAL PERFORMANCE ANALYSIS

A financial performance analysis evaluates an organization's overall financial health, profitability and viability over a given period of time. It can be used to compare similar organizations in the private, public or nonprofit sectors. An assessment can be made about the financial status of an organization by reviewing information from the organization's audited financial statements, performing ratio analysis with that data and, if possible, also using comparative data.<sup>260</sup>

The District of Columbia Public Charter School Board uses financial performance analysis with its General Performance Assessment (GPA) calculation to annually evaluate the fiscal stability of its individual charter schools. It is based upon a methodology first developed by Nida and Bradley in "Assessing the Performance of Charter Schools," published in *The RMA Journal* in

<sup>260</sup> Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2005), p. 498.

2002.<sup>261</sup> The Civic Federation has adapted the District of Columbia GPA model to use in a financial evaluation of the twenty-two Chicago charter schools that consistently reported data in their audited financial statements in FY2007 and FY2008.

The District of Columbia GPA calculator uses financial data to prepare an evaluation of each school's performance. The performance is summarized in a "report card" that uses a four point scale to grade individual factors as well as the overall general performance assessment. The evaluation process is completed in five steps.

*Step One: Financial Analysis.* Data are listed from each charter school's financial statements to be used in a later step to determine key measures of liquidity, leverage, capitalization, and profitability.

*Step Two: Calculate Ratios.* A series of financial ratios are calculated. Many of the financial ratios are commonly used for financial or investment analysis by municipal analysts or entities such as rating agencies.

*Step Three: Benchmarking.* Performance benchmarks are used for each factor considered to determine a grade.

*Step Four: Weighting of Grades.* Each grade is weighted and the weighted grades are added to the performance factors.

*Step Five: Calculation of the Final GPA.* The factors being evaluated are averaged to produce a final general performance assessment score.

There are seven ratios used to calculate the overall GPA of each charter school: the Current Ratio, the Fixed Assets Ratio, the Capitalization Ratio, the Debt-to-Worth Ratio, the Occupancy Ratio, the Instruction Ratio and the Profit Margin Ratio. The results of evaluations of each ratio for the Chicago charter schools is presented in the following sections followed by a summary of all results and a benchmark analysis that permits the comparison of findings to standards established by the District of Columbia Charter School Board.<sup>262</sup>

**Current Ratio:** The current ratio is a measure of liquidity. It assesses the ability of a school to meet its current obligations as they come due by indicating whether the organization has enough cash and other liquid resources to meet its obligations in the near term. A ratio of 1.0 means that current assets are sufficient to cover current liabilities. The formula for calculating the current ratio is Current Assets/Current Liabilities.<sup>263</sup> Although the needs of organizations can and do

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<sup>261</sup> The financial performance evaluation is used in conjunction with a performance assessment to provide a comprehensive evaluation of District of Columbia charter school performance. This paper focuses only on a financial analysis of Chicago charter schools. Thomas A. Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *The RMA Journal*. December 2002-January 2003, p. 49.

<sup>262</sup> District of Columbia Public Charter School Board. *District of Columbia Fiscal Policy Handbook*, 3<sup>rd</sup> edition, July 2008.

<sup>263</sup> Current assets used in this calculation included cash, the portion of pledges or donations to be received within one year net of uncollectible accounts, prepaid expenses and other accounts receivable. Current liabilities included

vary, it is commonly accepted that the current ratio should be close to 2.0 or higher.<sup>264</sup> Information for calculating the current ratio is found in the Balance Sheet of a school's audited financial statements. The grading system for current ratios is provided below.

| Current Ratio                                    |       |    |
|--|-------|----|
| Calculation = Current Assets/Current Liabilities |       |    |
| Ratio  | Grade |    |
| less than or equal to 0.25                       | 0.00  | F  |
| 0.26 to 0.50                                     | 0.50  | F  |
| 0.51 to 0.75                                     | 1.00  | D  |
| 0.76 to 1.00                                     | 1.50  | D  |
| 1.01 to 1.25                                     | 2.00  | C  |
| 1.26 to 1.50                                     | 2.50  | C+ |
| 1.51 to 2.00                                     | 3.00  | B  |
| 2.01 to 2.50                                     | 3.50  | B+ |
| greater than 2.50                                | 4.00  | A  |

The exhibit following this discussion compares the current ratio general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the current ratio number and letter grade assigned for each charter school and an indication of whether the grade improved, remained stable or declined between the two years reviewed.

Overall, the schools compiled an average current ratio GPA of 3.1 in FY2008, or a B grade. This was down from the 3.4 grade earned the previous year. *The relatively high grades indicate that, in the aggregate, the schools had current assets that were more than adequate to cover current liabilities in both years.* Between FY2007 and FY2008, the current ratio grades of nine charter schools declined, five improved and eight remained stable.

In FY2007, the overwhelming majority of charter schools, eighteen of out of twenty-two or 81.8%, received high current ratio grades of A or B. One school – the Chicago Virtual charter school – received a D grade, indicating that its current ratios were less than 1.0 and thus current assets were not adequate to cover current liabilities. Three other schools – Catalyst charter school, Chicago International charter school and the Chicago Mathematics and Science Academy – received C grades, which means that their current ratios were slightly greater than 1.0, but below the desired ratio of 2.0.

In FY2008, the number of charter schools receiving A or B grades dropped to sixteen schools, or 72.7% of the total. Three schools – the ACE Technical, the Bronzeville Lighthouse and the Chicago Virtual charter schools received a C grade, meaning that their current ratios were slightly greater than 1.0, but below the desired ratio of 2.0. Three other schools – the Academy of Communications and Technology and the Catalyst and Choir academy charter schools – received D grades. Their current assets were not adequate to cover current liabilities.

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accounts payable, accrued salaries and related liabilities, deferred revenues and the current portion of bonds or notes payable (if available).

<sup>264</sup> Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2001), p. 476.



| Chicago Charter School Current Ratio General Performance Assessment: FY2007 and FY2008 |                      |              |                      |              |                                   |
|--|----------------------|--------------|----------------------|--------------|-----------------------------------|
| Charter School   | FY2007 Current Ratio |              | FY2008 Current Ratio |              | FY2007-FY2008 Grade Status Change |
|  | Number Grade         | Letter Grade | Number Grade         | Letter Grade | Improve, Decline or Stable        |
| Academy of Communications and Technology   | 3.0                  | B            | 1.0                  | D            | Declined                          |
| Architecture, Construction, and Engineering (ACE) Technical Charter School             | 4.0                  | A            | 2.0                  | C            | Declined                          |
| Bronzeville Lighthouse Charter School  | 3.0                  | B            | 2.5                  | C+           | Declined                          |
| Catalyst Charter School - Howland  | 2.0                  | C            | 1.0                  | D            | Declined                          |
| Chicago International Charter School   | 2.0                  | C            | 3.5                  | B+           | Improved                          |
| Chicago Mathematics and Science Academy  | 2.0                  | C            | 3.0                  | B            | Improved                          |
| Chicago Virtual Charter School   | 1.5                  | D+           | 2.5                  | C+           | Improved                          |
| Choir Academy Charter School of Chicago  | 3.0                  | B            | 1.5                  | D+           | Declined                          |
| Erie Elementary Charter School   | 4.0                  | A            | 3.0                  | B            | Declined                          |
| KIPP Ascend Academy Charter School   | 4.0                  | A            | 4.0                  | A            | Stable                            |
| L.E.A.R.N. Charter School  | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Legacy Charter School  | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Namaste Charter School   | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Noble Street Charter School  | 4.0                  | A            | 4.0                  | A            | Stable                            |
| North Lawndale College Prep Charter School   | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Passages Charter School  | 4.0                  | A            | 3.0                  | B            | Declined                          |
| Perspectives Charter School  | 4.0                  | A            | 3.0                  | B            | Declined                          |
| Providence Englewood Charter School  | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Betty Shabazz International Charter School   | 3.5                  | B+           | 4.0                  | A            | Improved                          |
| UNO Charter School   | 3.5                  | B+           | 4.0                  | A            | Improved                          |
| Young Women's Leadership Charter School  | 4.0                  | A            | 4.0                  | A            | Stable                            |
| Youth Connection Charter School (YCCS)   | 3.5                  | B+           | 3.0                  | B            | Declined                          |
| <b>AVERAGE</b>   | <b>3.4</b>           | <b>B+</b>    | <b>3.1</b>           | <b>B</b>     | <b>Declined</b>                   |
| <b>MEDIAN</b>  | <b>4.0</b>           |              | <b>3.3</b>           |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Fixed Assets Ratio:** The fixed assets ratio measures how much of an organization's total assets are fixed assets. Fixed assets are illiquid and cannot readily be converted to cash. The greater the percentage of total assets in fixed assets, the less flexibility the organization has to convert assets to cash to fund service demands. Fixed assets are long-term assets that will not be used or converted to cash within a one-year period.<sup>265</sup> They include real estate, leasehold improvements and furniture, fixtures and equipment (FFE). Total assets are the monetary value of anything the organization owns. The formula for calculating the fixed asset ratio is Fixed Assets/Total Assets.<sup>266</sup> A ratio of 0.5 or higher may indicate that too much of the organization's capital is in fixed assets. As a result, it has insufficient access to capital and likely maintains low cash reserves. This can inhibit the organization's ability to meet increased service demands.<sup>267</sup> Information for calculating the fixed assets ratio is found in the Balance Sheet of a school's audited financial statements. The grading system for fixed assets ratios is provided below.

<sup>265</sup> Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2001), p. 556.

<sup>266</sup> Fixed assets are reported in the Balance Sheets net of depreciation.

<sup>267</sup> <http://www.businessplans.org/ratios.html>

| Fixed Assets Ratio                      |       |    |
|---|-------|----|
| Calculation = Fixed Assets/Total Assets |       |    |
| Ratio                                   | Grade |    |
| more than or equal to 0.80              | 0.00  | F  |
| 0.71 to 0.80                            | 1.50  | D  |
| 0.61 to 0.70                            | 2.00  | C  |
| 0.51 to 0.60                            | 2.50  | C+ |
| 0.41 to 0.50 or 0.0 to 0.10             | 3.00  | B  |
| 0.31 to 0.40 or 0.11 to 0.20            | 3.50  | B+ |
| 0.21 to 0.30                            | 4.00  | A  |

The exhibit that follows compares the fixed assets ratio general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the fixed assets ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable or declined between the two years reviewed.

The average fixed assets ratio GPA for the Chicago charter schools was 2.9 in FY2008, or roughly a B grade. This was an improvement from the 2.8 grade earned the previous year. *The grades indicate that the schools in the aggregate had sufficient access to capital and maintained adequate cash reserves.* They were not holding an excessive amount of fixed assets relative to more liquid assets. The median fixed assets ratio in FY2007 was 0.28 and 0.24 in FY2008.

Between FY2007 and FY2008, the fixed assets ratio grades of nine charter schools declined, seven improved and six remained stable. One of the schools that had a “stable,” rating, however, had an “F” grade in both years.

In FY2007, sixteen out of twenty-two schools, or 72.7%, received high grades of A or B. One school - the Perspectives Charter School - had a C+. Five schools had a D or F grade, indicating that their fixed assets ratio was 0.5 or higher and therefore they may have had insufficient access to capital and likely maintained low cash reserves. These schools were the Academy of Communications and Technology, Catalyst charter school, the L.E.A.R.N. charter school, the North Lawndale College Prep Charter School and the Youth Connection Charter School.

The number of charter schools receiving A or B grades in FY2008 dropped to fifteen schools, or 68.2% of the total. Five schools –the Catalyst Charter School, the Chicago International Charter School, the Noble Street Charter School, the North Lawndale College Prep Charter School and the Perspectives Charter School – all received C grades. Two schools – the Academy of Communications and Technology and the L.E.A.R.N. Charter School – received F grades.

| Chicago Charter School Fixed Assets Ratio General Performance Assessment: FY2007 and FY2008 |                           |              |                           |              |                                   |
|---|---------------------------|--------------|---------------------------|--------------|-----------------------------------|
| Charter School  | FY2007 Fixed Assets Ratio |              | FY2008 Fixed Assets Ratio |              | FY2007-FY2008 Grade Status Change |
|   | Number Grade              | Letter Grade | Number Grade              | Letter Grade | Improved, Declined or Stable      |
| Academy of Communications and Technology  | 0.0                       | F            | 0.0                       | F            | Stable but Negative               |
| Architecture, Construction, and Engineering (ACE) Technical Charter School                  | 4.0                       | A            | 3.5                       | B+           | Declined                          |
| Bronzeville Lighthouse Charter School   | 3.0                       | B            | 3.0                       | B            | Stable                            |
| Catalyst Charter School - Howland   | 0.0                       | F            | 2.0                       | C            | Improved                          |
| Chicago International Charter School  | 3.5                       | B+           | 2.5                       | C+           | Declined                          |
| Chicago Mathematics and Science Academy   | 3.0                       | B            | 4.0                       | A            | Improved                          |
| Chicago Virtual Charter School  | 4.0                       | A            | 3.5                       | B+           | Declined                          |
| Choir Academy Charter School of Chicago   | 4.0                       | A            | 4.0                       | A            | Stable                            |
| Erie Elementary Charter School  | 4.0                       | A            | 3.5                       | B+           | Declined                          |
| KIPP Ascend Academy Charter School  | 3.5                       | B+           | 3.0                       | B            | Declined                          |
| L.E.A.R.N. Charter School   | 0.0                       | F            | 1.5                       | D+           | Improved                          |
| Legacy Charter School   | 3.0                       | B            | 3.0                       | B            | Stable                            |
| Namaste Charter School *  | 3.0                       | B            | 3.5                       | B+           | Improved                          |
| Noble Street Charter School   | 3.5                       | B            | 2.5                       | C+           | Declined                          |
| North Lawndale College Prep Charter School  | 1.5                       | D            | 2.0                       | C            | Improved                          |
| Passages Charter School   | 4.0                       | A            | 3.0                       | B            | Declined                          |
| Perspectives Charter School   | 2.5                       | C+           | 2.0                       | C            | Declined                          |
| Providence Englewood Charter School   | 3.5                       | B+           | 3.5                       | B+           | Stable                            |
| Betty Shabazz International Charter School  | 3.5                       | B+           | 3.5                       | B+           | Stable                            |
| UNO Charter School  | 3.0                       | B            | 3.5                       | B+           | Improved                          |
| Young Women's Leadership Charter School   | 4.0                       | A            | 3.5                       | B+           | Declined                          |
| Youth Connection Charter School (YCCS)  | 0.0                       | F            | 3.0                       | B            | Improved                          |
| <b>AVERAGE</b>  | <b>2.8</b>                | <b>B</b>     | <b>2.9</b>                | <b>B</b>     | <b>Improved Slightly</b>          |
| <b>MEDIAN</b>   | <b>3.3</b>                |              | <b>3.0</b>                |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Capitalization Ratio:** The capitalization ratio is a measure of an organization's ability to meet its financial obligations. It indicates the relative proportion of capital or net assets that can be used to finance new assets. The formula for calculating the capitalization ratio is Capital/Total Assets. Capital in this case refers to total net assets or the residual value after liabilities have been subtracted from the assets of an organization. It includes both restricted and unrestricted net assets. Total assets are the monetary value of anything the organization owns. The higher the ratio, the more net assets are available to meet those obligations. A ratio of 0.31 or higher is optimal. Conversely, the lower the ratio, the less flexibility the organization has to meet its financial obligations. Information for calculating the capitalization ratio is found in the Balance Sheet of a school's audited financial statements. The grading system for capitalization ratios is provided below.

| Capitalization Ratio<br>Calculation = Capital/Total Assets |       |    |
|--|-------|----|
| Ratio  | Grade |    |
| less than or equal to -.20                                 | 0.00  | F  |
| -.19 to .10  | 0.50  | F  |
| -.09 to 0  | 1.00  | D  |
| .01 to .10   | 1.50  | D  |
| .11 to .20   | 2.00  | C  |
| .21 to .30   | 2.50  | C+ |
| .31 to .40   | 3.00  | B  |
| .41 to .50   | 3.50  | B+ |
| greater than .50   | 4.00  | A  |

The exhibit that follows compares the capitalization ratio general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the capitalization ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable or declined between the two years reviewed.

The average capitalization ratio GPA for the Chicago charter schools was 3.3 in FY2008, or roughly a B/B+ grade. This was a slight decrease from the 3.5 grade in FY2007. *The high grades indicate that the Chicago charter schools reviewed had sufficient flexibility to meet their financial obligations.* The median capitalization ratio was 0.59 in FY2007 and 0.51 in FY2008.

Between FY2007 and FY2008, the capitalization grades of eight charter schools declined, four improved and ten remained stable.

In FY2007, eighteen of out of twenty-two schools received high grades of A or B. Three charter schools – the Chicago International Charter School, the Choir Academy Charter School and the UNO charter school – had C grades. A D grade was reported for the Chicago Virtual Charter School. The schools with C or D grades had low capitalization ratios, meaning that they had relatively low levels of net assets that could potentially be used to meet financial obligations.

The number of charter schools receiving A or B grades in FY2008 dropped slightly to seventeen schools. Three schools –the Bronzeville Lighthouse charter school, the Chicago International Charter School and the Perspectives Charter School – all received C grades. Two schools – the Choir Academy Charter School and the UNO Charter School – received F grades; in these cases, the value of fixed assets were over 80% of total assets indicating little flexibility in meeting financial obligations.

| Chicago Charter School Capitalization Ratio General Performance Assessment: FY2007 and FY2008 |                             |              |                             |              |                                   |
|---|-----------------------------|--------------|-----------------------------|--------------|-----------------------------------|
| Charter School  | FY2007 Capitalization Ratio |              | FY2008 Capitalization Ratio |              | FY2007-FY2008 Grade Status Change |
|   | Number Grade                | Letter Grade | Number Grade                | Letter Grade | Improved, Declined or Stable      |
| Academy of Communications and Technology  | 4.0                         | A            | 3.50                        | B+           | Declined                          |
| Architecture, Construction, and Engineering (ACE) Technical Charter School                    | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Bronzeville Lighthouse Charter School   | 3.0                         | B            | 2.50                        | C+           | Declined                          |
| Catalyst Charter School - Howland   | 4.0                         | A            | 3.50                        | B+           | Declined                          |
| Chicago International Charter School  | 2.0                         | C            | 2.50                        | C+           | Improved                          |
| Chicago Mathematics and Science Academy   | 3.0                         | B            | 4.00                        | A            | Improved                          |
| Chicago Virtual Charter School  | 1.0                         | D            | 3.00                        | B+           | Improved                          |
| Choir Academy Charter School of Chicago   | 2.5                         | C+           | 0.50                        | F            | Declined                          |
| Erie Elementary Charter School  | 4.0                         | A            | 4.00                        | A            | Stable                            |
| KIPP Ascend Academy Charter School  | 4.0                         | A            | 4.00                        | A            | Stable                            |
| L.E.A.R.N. Charter School   | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Legacy Charter School   | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Namaste Charter School  | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Noble Street Charter School   | 3.0                         | B            | 3.00                        | B+           | Improved                          |
| North Lawndale College Prep Charter School  | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Passages Charter School   | 4.0                         | A            | 3.50                        | B+           | Declined                          |
| Perspectives Charter School   | 3.5                         | B+           | 2.50                        | C+           | Declined                          |
| Providence Englewood Charter School   | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Betty Shabazz International Charter School  | 4.0                         | A            | 4.00                        | A            | Stable                            |
| UNO Charter School  | 2.0                         | C            | 0.50                        | F            | Declined                          |
| Young Women's Leadership Charter School   | 4.0                         | A            | 4.00                        | A            | Stable                            |
| Youth Connection Charter School (YCCS)  | 4.0                         | A            | 3.50                        | B+           | Declined                          |
| <b>AVERAGE</b>  | <b>3.5</b>                  | <b>B+</b>    | <b>3.3</b>                  | <b>B/B+</b>  | <b>Declined Slightly</b>          |
| <b>MEDIAN</b>   | <b>4.0</b>                  |              | <b>3.8</b>                  |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Debt-to-Worth Ratio:** The debt-to-worth ratio is a measure of financial leverage. Also called a debt-to-equity ratio, it evaluates the degree to which an organization can use debt to finance asset acquisition.<sup>268</sup> The formula for calculating the debt-to-worth ratio is total liabilities/capital. Liabilities are the financial obligations an organization owes while “worth” or capital is net assets. The lower the debt-to-worth ratio the better as it indicates there are sufficient net assets available to fund liabilities if needed and there is minimal risk of financial difficulties occurring. Finkler notes that the debt-to-worth ratio should not exceed 1.0., which means that net assets equal liabilities. However, the appropriate level varies from organization to organization. <sup>269</sup> For schools, which are necessarily capital intensive organizations, a ratio of up to 1.99 (or net assets equaling about 50% of liabilities) is acceptable. Information for calculating the debt-to-worth ratio is found in the Balance Sheet of a school’s audited financial statements. The grading system for debt-to-worth ratios is provided below.

<sup>268</sup> Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2005), p. 531.

<sup>269</sup> Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2005), p. 531.

| Debt-to-Worth Ratio<br>Calculation = Total Liabilities/Capital |       |    |
|--|-------|----|
| Ratio  | Grade |    |
| greater than 6.50 or if negative                               | 0.00  | F  |
| 5.51 to 6.50   | 0.50  | F  |
| 4.51 to 5.50   | 1.00  | D  |
| 3.51 to 4.50   | 1.50  | D  |
| 2.51 to 3.50   | 2.00  | C  |
| 2.01 to 2.50   | 2.50  | C+ |
| 1.51 to 1.99   | 3.00  | B+ |
| 1.01 to 1.50   | 3.50  | B+ |
| 0.01 to 1.00   | 4.00  | A  |

A comparison of the debt-to-worth ratio general performance assessments for Chicago charter schools in FY2007 and FY2008 follows. It includes the debt-to-worth ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable or declined between the two years reviewed.

The average debt-to-worth ratio GPA for the Chicago charter schools was 3.0 in FY2008, a B grade. This was a decrease from the 3.5 grade calculated for FY2007. *The high aggregate grades indicate there were sufficient net assets available to fund liabilities if needed and there was minimal risk of financial difficulties occurring.* The median ratio was 0.64 for FY2007 and 0.70 for FY2008

Between FY2007 and FY2008, the debt-to-worth ratio GPAs of ten charter schools declined, ten were stable (although one of these received an F grade) and two improved.

In FY2007, nineteen out of twenty-two schools or 86.4% of the total received high grades of A or B. The remaining three charter schools had low grades, indicating they had insufficient net assets to fund liabilities if needed and there was a greater degree of risk of financial difficulties occurring. Of these schools, the Choir Academy Charter School received a C grade, the Chicago International Charter School received a D grade and the UNO Charter School received an F grade.

The number of charter schools receiving A or B grades in FY2008 fell to fifteen schools. Five schools –the Bronzeville Lighthouse Charter School, the Chicago International Charter School, the Chicago Virtual Charter School, the Passages Charter School, the Perspectives Charter School – received C grades. Two schools – the Choir Academy Charter School and the UNO Charter School – received F grades.

| Chicago Charter School Debt to Worth Ratio General Performance Assessment: FY2007 and FY2008 |                            |              |                            |              |                                   |
|--|----------------------------|--------------|----------------------------|--------------|-----------------------------------|
| Charter School   | FY2007 Debt to Worth Ratio |              | FY2008 Debt to Worth Ratio |              | FY2007-FY2008 Grade Status Change |
|  | Number Grade               | Letter Grade | Number Grade               | Letter Grade | Improvedd, Declined or Stable     |
| Academy of Communications and Technology   | 4.0                        | A            | 3.5                        | B+           | Declined                          |
| Architecture,Construction, and Engineering (ACE) Technical Charter School                    | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Bronzeville Lighthouse Charter School  | 3.0                        | B+           | 2.5                        | C+           | Declined                          |
| Catalyst Charter School - Howland  | 4.0                        | A            | 3.5                        | B+           | Declined                          |
| Chicago International Charter School   | 1.5                        | D            | 2.0                        | C+           | Improvedd                         |
| Chicago Mathematics and Science Academy  | 3.0                        | B+           | 4.0                        | A            | Improvedd                         |
| Chicago Virtual Charter School   | 4.0                        | A            | 2.5                        | C+           | Declined                          |
| Choir Academy Charter School of Chicago  | 2.0                        | C            | 0.0                        | F            | Declined                          |
| Erie Elementary Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| KIPP Ascend Academy Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| L.E.A.R.N. Charter School  | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Legacy Charter School*   | 4.0                        | A            | 0.0                        | A            | Stable                            |
| Namaste Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Noble Street Charter School  | 3.0                        | B+           | 3.0                        | B            | Declined                          |
| North Lawndale College Prep Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Passages Charter School  | 4.0                        | A            | 3.5                        | C+           | Declined                          |
| Perspectives Charter School  | 3.5                        | B+           | 2.0                        | C            | Declined                          |
| Providence Englewood Charter School  | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Betty Shabazz International Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| UNO Charter School   | 0.5                        | F            | 0.0                        | F            | Stable but Negative               |
| Young Women's Leadership Charter School  | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Youth Connection Charter School (YCCS)   | 4.0                        | A            | 3.5                        | B+           | Declined                          |
| <b>AVERAGE</b>   | <b>3.5</b>                 | <b>B+</b>    | <b>3.0</b>                 | <b>B</b>     | <b>Declined</b>                   |
| <b>MEDIAN</b>  | <b>4.0</b>                 |              | <b>3.5</b>                 |              |                                   |

\* The 0.0 is a rounding of a positive ratio

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Occupancy Ratio:** The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payments; utilities, maintenance costs, real estate taxes, insurance related to building, uncapitalized repairs, gym rental and telephone/internet expenses.<sup>270</sup> It does not include custodial or equipment lease expenses. Gross revenue is total revenue. The lower the occupancy ratio the better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of 0.1 to 0.15 is preferable. Information for calculating the occupancy ratio is found in the Statement of Activities or Statement of Functional Expenses of a school's audited financial statements. The grading system for occupancy ratios is provided below.

<sup>270</sup> Note that the principal portion of a mortgage payment is not reflected in either the Statement of Activities or Statement of Functional Expenses.

| Occupancy Ratio                            |       |    |
|--|-------|----|
| Calculation = Occupancy Cost/Gross Revenue |       |    |
| Ratio                                      | Grade |    |
| more than 0.400                            | 0.00  | F  |
| 0.351 to 0.400                             | 0.50  | F  |
| 0.301 to 0.350                             | 1.00  | D  |
| 0.251 to 0.300                             | 1.50  | D  |
| 0.201 to to 0.250                          | 2.00  | C  |
| 0.151 to 0.200                             | 2.50  | C+ |
| 0.101 to 0.150                             | 3.00  | B  |
| 0.051 to 0.10                              | 3.50  | B+ |
| less than or equal to 0.5                  | 4.00  | A  |

The exhibit that follows compares the occupancy ratio general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the occupancy ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable, or declined between the two years reviewed.

The average occupancy ratio GPA for the Chicago charter schools was 3.3 in both FY2007 and FY2008, or roughly a B/B+grade. *The grades indicate that the schools in the aggregate had relative low occupancy ratios, thus they used a relatively small amount of resources for occupancy expenses.* In FY2007, the median occupancy ratio was 0.9 while in FY2008, the median ratio was 0.11.

Between FY2007 and FY2008, the occupancy ratio grades of six charter schools declined, three improved and thirteen remained stable.

In FY2007, eighteen of twenty-two or 81.8% of the schools analyzed, received high grades of A or B. The remaining four schools - the Choir Academy Charter School, the KIPP Ascend Academy Charter School, the Noble Street Charter School and the Passages Charter School - had C grades. They had relatively high occupancy expenses relative to gross revenue received.

The number of charter schools receiving A or B grades in FY2008 increased to nineteen schools, or 86.4% of the total. Three schools –the Chicago Virtual Charter School, the Noble Street Charter School and the Providence Englewood Charter School– received C grades.



| Chicago Charter School Occupancy Ratio General Performance Assessment: FY2007 and FY2008 |                        |              |                        |              |                                   |
|--|------------------------|--------------|------------------------|--------------|-----------------------------------|
| Charter School   | FY2007 Occupancy Ratio |              | FY2008 Occupancy Ratio |              | FY2007-FY2008 Grade Status Change |
|  | Number Grade           | Letter Grade | Number Grade           | Letter Grade | Improved, Declined or Stable      |
| Academy of Communications and Technology   | 3.5                    | B+           | 3.0                    | B            | Declined                          |
| Architecture, Construction, and Engineering (ACE) Technical Charter School               | 4.0                    | A            | 4.0                    | A            | Stable                            |
| Bronzeville Lighthouse Charter School  | 3.5                    | B+           | 3.0                    | B            | Declined                          |
| Catalyst Charter School - Howland  | 3.5                    | B+           | 3.5                    | B+           | Stable                            |
| Chicago International Charter School   | 4.0                    | A            | 4.0                    | A            | Stable                            |
| Chicago Mathematics and Science Academy  | 3.0                    | B            | 3.0                    | B            | Stable                            |
| Chicago Virtual Charter School   | 2.0                    | C            | 2.5                    | C+           | Improved                          |
| Choir Academy Charter School of Chicago  | 3.0                    | B            | 3.0                    | B            | Stable                            |
| Erie Elementary Charter School   | 3.5                    | B+           | 3.5                    | B+           | Stable                            |
| KIPP Ascend Academy Charter School   | 2.5                    | C+           | 3.0                    | B            | Improved                          |
| L.E.A.R.N. Charter School  | 4.0                    | A            | 4.0                    | A            | Stable                            |
| Legacy Charter School  | 4.0                    | A            | 3.5                    | B+           | Declined                          |
| Namaste Charter School   | 3.5                    | B+           | 3.0                    | B            | Declined                          |
| Noble Street Charter School  | 2.5                    | C+           | 2.5                    | C+           | Stable                            |
| North Lawndale College Prep Charter School   | 3.5                    | B+           | 3.5                    | B+           | Stable                            |
| Passages Charter School  | 2.5                    | C+           | 3.5                    | B+           | Improved                          |
| Perspectives Charter School  | 3.0                    | B            | 3.0                    | B            | Stable                            |
| Providence Englewood Charter School  | 3.0                    | B            | 2.5                    | C+           | Declined                          |
| Betty Shabazz International Charter School   | 3.5                    | B+           | 3.0                    | B            | Declined                          |
| UNO Charter School   | 3.5                    | B+           | 3.5                    | B+           | Stable                            |
| Young Women's Leadership Charter School  | 3.5                    | B+           | 3.5                    | B+           | Stable                            |
| Youth Connection Charter School (YCCS)   | 4.0                    | A            | 4.0                    | A            | Stable                            |
| <b>AVERAGE</b>   | <b>3.3</b>             | <b>B/B+</b>  | <b>3.3</b>             | <b>B/B+</b>  | <b>Stable</b>                     |
| <b>MEDIAN</b>  | <b>3.5</b>             |              | <b>3.3</b>             |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Instruction Ratio:** The instruction ratio measures how much of a school's gross revenues are used to pay for personnel related costs. The formula for calculating the instruction ratio is Payroll and Instruction Costs/Gross Revenue. Payroll costs include salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. They do not include staff development costs, accounting and legal service expenses and management fees. Instruction costs include textbooks, classroom and recreation supplies. Gross revenue is total revenue. The lower the payroll and instruction ratio the better, as personnel costs - the single largest expense in a school - are being kept under control. A payroll and instruction ratio of less than 0.55 is desirable. Information for calculating the payroll and instruction ratio is found in the Statement of Activities or Statement of Functional Expenses of a school's audited financial statements. The grading system for payroll and instruction ratios is provided below.

| Instruction Ratios  |       |    |
|---|-------|----|
| Calculation = (Payroll Costs + Instruction)/Gross Revenue |       |    |
| Ratio   | Grade |    |
| more than 0.80  | 0.00  | F  |
| 0.76 to 0.80  | 0.50  | F  |
| 0.71 to 0.75  | 1.00  | D  |
| 0.66 to 0.70  | 1.50  | D  |
| 0.61 to 0.65  | 2.00  | C  |
| 0.56 to 0.60  | 2.50  | C+ |
| 0.51 to 0.55  | 3.00  | B  |
| 0.46 to 0.50  | 3.50  | B+ |
| less than or equal to 0.45                                | 4.00  | A  |

The exhibit that follows compares the instruction ratio general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable or declined between the two years reviewed.

The average instruction ratio GPA for the Chicago charter schools was 2.3 in FY2007 and 1.9 in FY2008. These correspond roughly to a C/C- grade in FY2007 and a C grade in FY2008. *The grades indicate that the schools had moderate to high instructional costs relative to gross revenue.* The median ratios were 0.62 in FY2007 and 0.68 the following year.

Between FY2007 and FY2008, the instruction ratio grades of ten charter schools declined, one improved and eleven remained stable. Of those eleven stable schools, however, five received a D or F grade.

In FY2007, nine of twenty-two or 40.9% of the schools analyzed, received high grades of A or B, meaning that their ratios were relatively low. All of the other schools had moderate to high instruction ratios. Five schools – ACE Technical charter school, the Bronzeville Lighthouse charter school, the Chicago Virtual Charter School, Erie Charter School and the KIPP Ascend Charter School - had C grades. Eight schools had D or F grades. They included the Academy of Communications and Technology, the Chicago Mathematics and Science Academy, the Choir Academy Charter School, the L.E.A.R.N. Charter School, the North Lawndale Prep Charter School, the Perspectives Charter School, the Betty Shabazz International Charter School and the Young Women’s Leadership Charter School.

In FY2008, the number of charter schools receiving A or B grades fell to six schools as a larger number of schools increased the proportion of revenues used for instruction, hence boosting their ratios. The schools with A or B grades were the Chicago International Charter School, the Chicago Virtual Charter School, the Legacy Charter School, the Providence Englewood Charter School, the UNO Charter School and the Youth Connection Charter School. Four schools registered C grades, six Chicago charter schools had GPAs of D, and six others had grades of F.

| Chicago Charter School Instruction Ratio General Performance Assessment: FY2007 and FY2008 |                          |              |                          |              |                                   |
|--|--------------------------|--------------|--------------------------|--------------|-----------------------------------|
| Charter School   | FY2007 Instruction Ratio |              | FY2008 Instruction Ratio |              | FY2007-FY2008 Grade Status Change |
|  | Number Grade             | Letter Grade | Number Grade             | Letter Grade |                                   |
| Academy of Communications and Technology   | 0.5                      | F            | 0.5                      | F            | Stable, but negative              |
| Architecture, Construction, and Engineering (ACE) Technical Charter School                 | 2.0                      | C            | 1.0                      | D            | Declined                          |
| Bronzeville Lighthouse Charter School  | 2.5                      | C+           | 0.5                      | F            | Declined                          |
| Catalyst Charter School - Howland  | 3.5                      | B+           | 2.5                      | C+           | Declined                          |
| Chicago International Charter School   | 4.0                      | A            | 4.0                      | A            | Stable                            |
| Chicago Mathematics and Science Academy  | 1.5                      | D            | 1.0                      | D            | Stable                            |
| Chicago Virtual Charter School   | 2.0                      | C            | 4.0                      | A            | Improved                          |
| Choir Academy Charter School of Chicago  | 1.0                      | D            | 0.0                      | F            | Declined                          |
| Erie Elementary Charter School   | 2.0                      | C            | 1.5                      | D            | Declined                          |
| KIPP Ascend Academy Charter School   | 2.5                      | C+           | 1.5                      | D            | Declined                          |
| L.E.A.R.N. Charter School  | 1.0                      | D            | 1.5                      | D            | Stable, but Negative              |
| Legacy Charter School  | 4.0                      | A            | 4.0                      | A            | Stable                            |
| Namaste Charter School   | 3.0                      | B+           | 2.0                      | C            | Declined                          |
| Noble Street Charter School  | 4.0                      | A            | 2.5                      | C+           | Declined                          |
| North Lawndale College Prep Charter School   | 1.0                      | D            | 1.0                      | D            | Stable but Negative               |
| Passages Charter School  | 3.5                      | B+           | 2.5                      | C+           | Declined                          |
| Perspectives Charter School  | 1.0                      | D            | 0.0                      | F            | Declined                          |
| Providence Englewood Charter School  | 3.0                      | B            | 3.0                      | B            | Stable                            |
| Betty Shabazz International Charter School   | 0.0                      | F            | 0.5                      | F            | Stable, but negative              |
| UNO Charter School   | 4.0                      | A            | 4.0                      | A            | Stable                            |
| Young Women's Leadership Charter School  | 0.5                      | F            | 0.5                      | F            | Stable, but negative              |
| Youth Connection Charter School (YCCS)   | 4.0                      | A            | 4.0                      | A            | Stable                            |
| <b>AVERAGE</b>   | <b>2.3</b>               | <b>C/C+</b>  | <b>1.9</b>               | <b>C</b>     | <b>Stable, but Negative</b>       |
| <b>MEDIAN</b>  | <b>2.3</b>               |              | <b>1.5</b>               |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

**Profit Margin Ratio:** Charter schools are nonprofit organizations and therefore not focused on amassing “profits.” However, their long term fiscal viability depends on maintaining reasonable reserves or a “profit margin” that can be used to generate earnings to expand their capital base.<sup>271</sup> The formula for calculating the profit margin ratio is Net Income/Gross Revenue. Net Income is net operating income before depreciation, amortization and interest expenses. A high profit margin is preferred, as it indicates the school operates at a “profit” and has sufficient reserves. A low profit margin can indicate financial difficulty. Information for calculating the profit margin ratio is found in the Statement of Activities or Statement of Functional Expenses of a school’s audited financial statements. The grading system for profit margin ratios is provided below.

<sup>271</sup> Thomas Nida and Bridget C. Bradley. “Assessing the Performance of Charter Schools.” *RMA Journal*. December 2002, p. 2.

| Profit Margin<br>Calculation = Net Income/Gross Revenue |       |    |
|---|-------|----|
| Ratio   | Grade |    |
| less than -0.15   | 0.00  | F  |
| -0.15 to -0.11  | 0.50  | F  |
| -0.11 to -0.08  | 1.00  | D  |
| -0.08 to -0.05  | 1.50  | D  |
| -0.05 to -0.02  | 2.00  | C  |
| -0.02 to 0.0  | 2.50  | C+ |
| 0.0 to 0.10   | 3.00  | B  |
| 0.10 to 0.15  | 3.50  | B+ |
| greater than 0.15                                       | 4.00  | A  |

The next exhibit compares the profit margin general performance assessments for Chicago charter schools in FY2007 and FY2008. It includes the profit margin ratio number and letter grade assigned and an indication of whether the grade has improved, remained stable or declined between the two years reviewed.

The average profit margin ratio GPA for the Chicago charter schools was 3.3 in FY2007. It fell to 2.8 in FY2008. These correspond roughly to a B/B+ grade in FY2007 and a low B grade in FY2008. *The grades indicate that the schools' profit margins were relatively high in FY2007, but declined in the following year to a mid-range level.* The median profit margin ratios were 0.21 in FY2007 and 0.04 the following year.

Between FY2007 and FY2008, the profit margin ratio grades of eleven Chicago charter schools declined, three improved and eight remained stable.

In FY2007, twenty of twenty-two or 90.9% of the schools analyzed, received high grades of A or B, meaning that their profit margin ratios were relatively high. Just two schools – Perspectives charter school and Betty Shabazz International Charter School – received C grades, indicating low profit margin ratios.

The number of charter schools receiving A or B grades fell to seventeen schools in FY2008 – 77.3% of all schools reviewed. Two schools had C grades, while three others received D or F grades. These schools all had reduced profit margins; those with a D or F grade had substantial deficits.

| Chicago Charter School Profit Margin Ratio General Performance Assessment: FY2007 and FY2008 |                            |              |                            |              |                                   |
|--|----------------------------|--------------|----------------------------|--------------|-----------------------------------|
| Charter School   | FY2007 Profit Margin Ratio |              | FY2008 Profit Margin Ratio |              | FY2007-FY2008 Grade Status Change |
|  | Number Grade               | Letter Grade | Number Grade               | Letter Grade | Improved, Declined or Stable      |
| Academy of Communications and Technology   | 3.0                        | B            | 2.0                        | C            | Declined                          |
| Architecture, Construction, and Engineering (ACE) Technical Charter School                   | 4.0                        | A            | 3.0                        | B            | Declined                          |
| Bronzeville Lighthouse Charter School  | 3.0                        | B            | 2.5                        | C+           | Declined                          |
| Catalyst Charter School - Howland  | 4.0                        | A            | 3.0                        | B            | Declined                          |
| Chicago International Charter School   | 4.0                        | A            | 3.5                        | B+           | Declined                          |
| Chicago Mathematics and Science Academy  | 3.5                        | B+           | 3.0                        | B            | Declined                          |
| Chicago Virtual Charter School   | 3.0                        | B            | 3.5                        | B+           | Improved                          |
| Choir Academy Charter School of Chicago  | 3.0                        | B            | 0.5                        | F            | Declined                          |
| Erie Elementary Charter School   | 3.0                        | B            | 3.0                        | B            | Stable                            |
| KIPP Ascend Academy Charter School   | 3.0                        | B            | 3.0                        | B            | Stable                            |
| L.E.A.R.N. Charter School  | 3.0                        | B            | 3.5                        | B+           | Improved                          |
| Legacy Charter School  | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Namaste Charter School   | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Noble Street Charter School  | 4.0                        | A            | 3.0                        | B            | Declined                          |
| North Lawndale College Prep Charter School   | 3.0                        | B            | 3.0                        | B            | Stable                            |
| Passages Charter School  | 3.5                        | B+           | 0.5                        | F            | Declined                          |
| Perspectives Charter School  | 2.5                        | C+           | 1.0                        | D            | Declined                          |
| Providence Englewood Charter School  | 4.0                        | A            | 4.0                        | A            | Stable                            |
| Betty Shabazz International Charter School   | 2.5                        | C+           | 3.0                        | B            | Improved                          |
| UNO Charter School   | 3.0                        | B            | 3.0                        | B            | Stable                            |
| Young Women's Leadership Charter School  | 3.0                        | B            | 3.0                        | B            | Stable                            |
| Youth Connection Charter School (YCCS)   | 3.0                        | B            | 2.5                        | B            | Declined                          |
| <b>AVERAGE</b>   | <b>3.3</b>                 | <b>B/B+</b>  | <b>2.8</b>                 | <b>B</b>     | <b>Stable</b>                     |
| <b>MEDIAN</b>  | <b>3.0</b>                 |              | <b>3.0</b>                 |              |                                   |

Source: Chicago charter school audited financial statements FY2007 and FY2008

### *Financial Performance Analysis Summary*

This section provides a summary of the results of all seven ratio analyses for the twenty-two charter schools analyzed, as well as a benchmark analysis that permits the comparison of findings to established standards.

To calculate the final General Performance Assessment (GPA) scores, the GPA scores for each of the seven ratios were averaged. Two of the ratios, the Profit Margin and Capitalization were weighted more heavily than the others because of their critical importance to the financial viability of an organization. For these ratios, the GPA was multiplied by a weight of 1.5.<sup>272</sup> For the summaries the following grade scale was used.

<sup>272</sup> Thomas Nida and Bridget C. Bradley. "Assessing the Performance of Charter Schools." *RMA Journal*. December 2002, p. 2.

| GPA Summary Grade Scale |    |
|-------------------------|----|
| 0.0 to 0.49             | F  |
| 0.50 to 0.99            | F  |
| 1.0 to 1.49             | D  |
| 1.50 to 1.99            | D  |
| 2.0 to 2.49             | C  |
| 2.50 to 2.69            | C+ |
| 2.70 to 2.9             | B- |
| 3.0 to 3.49             | B  |
| 3.50 to 3.69            | B+ |
| 3.70 to 4.0             | A- |
| 4.0 or higher           | A  |

### *FY2007 General Performance Assessment Scores*

- In FY2007, the overall GPA score for the twenty-two Chicago charter schools reporting consistent financial data was 3.6, which corresponds to a B+ grade. This is a relatively high grade, indicating that the financial health and viability of the Chicago charter schools studied was very good. Ten schools (45.4%) had GPA scores of 3.7 or higher. The remaining twelve schools had GPAs of 2.8 to 3.6, or B grades.

| Chicago Charter School Financial Performance Indicators FY2007 |                     |                          |                             |                           |                       |                         |                            |            |           |
|--|---------------------|--------------------------|-----------------------------|---------------------------|-----------------------|-------------------------|----------------------------|------------|-----------|
| Charter School   | Current Ratio Grade | Fixed Assets Ratio Grade | Capitalization Ratio Grade* | Debt to Worth Ratio Grade | Occupancy Ratio Grade | Instruction Ratio Grade | Profit Margin Ratio Grade* | GPA        | Grade     |
| Legacy Charter School  | 4.0                 | 3.0                      | 6.0                         | 4.0                       | 4.0                   | 4.0                     | 6.0                        | 4.4        | A         |
| ACE Technical Charter School                                   | 4.0                 | 4.0                      | 6.0                         | 4.0                       | 4.0                   | 2.0                     | 6.0                        | 4.3        | A         |
| Namaste Charter School   | 4.0                 | 3.0                      | 6.0                         | 4.0                       | 3.5                   | 3.0                     | 6.0                        | 4.2        | A         |
| Providence Englewood Charter School                            | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 3.0                   | 3.0                     | 6.0                        | 4.2        | A         |
| Passages Charter School  | 4.0                 | 4.0                      | 6.0                         | 4.0                       | 2.5                   | 3.5                     | 5.3                        | 4.2        | A         |
| Erie Elementary Charter School                                 | 4.0                 | 4.0                      | 6.0                         | 4.0                       | 3.5                   | 2.0                     | 4.5                        | 4.0        | A         |
| KIPP Ascend Academy Charter School                             | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 2.5                   | 2.5                     | 4.5                        | 3.9        | A-        |
| Noble Street Charter School                                    | 4.0                 | 3.0                      | 4.5                         | 3.0                       | 2.5                   | 4.0                     | 6.0                        | 3.9        | A-        |
| Young Women's Leadership Charter School                        | 4.0                 | 4.0                      | 6.0                         | 4.0                       | 3.5                   | 0.5                     | 4.5                        | 3.8        | A-        |
| Youth Connection Charter School (YCCS)                         | 3.5                 | 0.0                      | 6.0                         | 4.0                       | 4.0                   | 4.0                     | 4.5                        | 3.7        | A-        |
| Catalyst Charter School - Howland                              | 2.0                 | 0.0                      | 6.0                         | 4.0                       | 3.5                   | 3.5                     | 6.0                        | 3.6        | B+        |
| North Lawndale College Prep Charter School                     | 4.0                 | 1.5                      | 6.0                         | 4.0                       | 3.5                   | 1.0                     | 4.5                        | 3.5        | B+        |
| Betty Shabazz International Charter School                     | 3.5                 | 3.5                      | 6.0                         | 4.0                       | 3.5                   | 0.0                     | 3.8                        | 3.5        | B+        |
| Bronzeville Lighthouse Charter School                          | 3.0                 | 3.0                      | 4.5                         | 3.0                       | 3.5                   | 2.5                     | 4.5                        | 3.4        | B         |
| Chicago International Charter School                           | 2.0                 | 3.5                      | 3.0                         | 1.5                       | 4.0                   | 4.0                     | 6.0                        | 3.4        | B         |
| L.E.A.R.N. Charter School                                      | 4.0                 | 0.0                      | 6.0                         | 4.0                       | 4.0                   | 1.0                     | 4.5                        | 3.4        | B         |
| Perspectives Charter School                                    | 4.0                 | 2.5                      | 5.3                         | 3.5                       | 3.0                   | 1.0                     | 3.8                        | 3.3        | B         |
| Chicago Mathematics and Science Academy                        | 2.0                 | 3.0                      | 4.5                         | 3.0                       | 3.0                   | 1.5                     | 5.3                        | 3.2        | B         |
| UNO Charter School   | 3.5                 | 3.0                      | 3.0                         | 0.5                       | 3.5                   | 4.0                     | 4.5                        | 3.1        | B         |
| Academy of Communications and Technology                       | 3.0                 | 0.0                      | 6.0                         | 4.0                       | 3.5                   | 0.5                     | 4.5                        | 3.1        | B         |
| Choir Academy Charter School of Chicago                        | 3.0                 | 4.0                      | 3.8                         | 2.0                       | 3.0                   | 1.0                     | 4.5                        | 3.0        | B         |
| Chicago Virtual Charter School                                 | 1.5                 | 4.0                      | 1.5                         | 4.0                       | 2.0                   | 2.0                     | 4.5                        | 2.8        | B-        |
| <b>AVERAGE</b>   | <b>3.4</b>          | <b>2.7</b>               | <b>5.2</b>                  | <b>3.5</b>                | <b>3.3</b>            | <b>2.3</b>              | <b>5.0</b>                 | <b>3.6</b> | <b>B+</b> |
| <b>MEDIAN</b>  | <b>4.0</b>          | <b>3.0</b>               | <b>6.0</b>                  | <b>4.0</b>                | <b>3.5</b>            | <b>2.3</b>              | <b>4.5</b>                 | <b>3.5</b> | <b>B+</b> |

Source: Chicago charter school audited financial statements FY2007

\* The capitalization ratio and profit margin ratio grades were weighted due to their greater financial importance. Each grade was multiplied by a weight of 1.5 to arrive at a final grade.

Complete financial information was not available for eight charter schools: Amanda Charter school, ASPIRA Charter School, Polaris Charter Academy, Galapagos Elementary Charter School, Henry Ford Academy/Powder House High Charter School, Alain Locke Charter Academy, the University of Chicago Charter School, Urban Prep Academy for Young Men Charter School

## FY2008 General Performance Assessment Scores

- The overall Chicago charter school GPA score fell from 3.6 in FY2007 to 3.3 in FY2008. This corresponds to a B grade. The grade means that the financial health and viability of the twenty- two Chicago charter schools studied remained high, although it slipped from the prior year. Eight schools (36.3%) had A grades, with GPAs of 3.7 or higher. Eleven schools had B grades, with GPAs between 2.7 and 3.6. Two schools – the Academy of Communications and Technology and the Perspectives Charter School had C grades. Their GPAs were 2.3 and 2.2 respectively. Finally, the Choir Academy charter school received a D grade, with a GPA of just 1.4. Subsequently, the Choir Academy closed in 2008<sup>273</sup> and the Academy of Communications and Technology Charter School ceased providing education services in 2010.<sup>274</sup>

| Chicago Charter School Financial Performance Indicators FY2008 |                     |                          |                             |                           |                       |                         |                            |            |           |
|--|---------------------|--------------------------|-----------------------------|---------------------------|-----------------------|-------------------------|----------------------------|------------|-----------|
| Charter School   | Current Ratio Grade | Fixed Assets Ratio Grade | Capitalization Ratio Grade* | Debt to Worth Ratio Grade | Occupancy Ratio Grade | Instruction Ratio Grade | Profit Margin Ratio Grade* | GPA        | Grade     |
| Providence Englewood Charter School                            | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 2.5                   | 3.0                     | 6.0                        | 4.1        | A-        |
| Namaste Charter School*  | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 3.0                   | 2.0                     | 6.0                        | 4.1        | A         |
| Youth Connection Charter School (YCCS)                         | 3.0                 | 3.0                      | 5.3                         | 3.5                       | 4.0                   | 4.0                     | 4.5                        | 3.9        | A-        |
| Legacy Charter School  | 4.0                 | 3.0                      | 6.0                         | 0.0                       | 3.5                   | 4.0                     | 6.0                        | 3.8        | A-        |
| L.E.A.R.N. Charter School                                      | 4.0                 | 1.5                      | 6.0                         | 4.0                       | 4.0                   | 1.5                     | 5.3                        | 3.8        | A-        |
| Erie Elementary Charter School                                 | 3.0                 | 3.5                      | 6.0                         | 4.0                       | 3.5                   | 1.5                     | 4.5                        | 3.7        | A-        |
| KIPP Ascend Academy Charter School                             | 4.0                 | 3.0                      | 6.0                         | 4.0                       | 3.0                   | 1.5                     | 4.5                        | 3.7        | A-        |
| Young Women's Leadership Charter School                        | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 3.5                   | 0.5                     | 4.5                        | 3.7        | A-        |
| Betty Shabazz International Charter School                     | 4.0                 | 3.5                      | 6.0                         | 4.0                       | 3.0                   | 0.5                     | 4.5                        | 3.6        | B+        |
| Chicago Mathematics and Science Academy                        | 3.0                 | 4.0                      | 6.0                         | 4.0                       | 3.0                   | 1.0                     | 4.5                        | 3.6        | B+        |
| ACE Technical Charter School                                   | 2.0                 | 3.5                      | 6.0                         | 4.0                       | 4.0                   | 1.0                     | 4.5                        | 3.6        | B+        |
| Chicago International Charter School                           | 3.5                 | 2.5                      | 3.8                         | 2.0                       | 4.0                   | 4.0                     | 5.3                        | 3.6        | B+        |
| North Lawndale College Prep Charter School                     | 4.0                 | 2.0                      | 6.0                         | 4.0                       | 3.5                   | 1.0                     | 4.5                        | 3.6        | B+        |
| Chicago Virtual Charter School                                 | 2.5                 | 3.5                      | 4.5                         | 2.5                       | 2.5                   | 4.0                     | 5.3                        | 3.5        | B+        |
| Noble Street Charter School                                    | 4.0                 | 2.5                      | 4.5                         | 3.0                       | 2.5                   | 2.5                     | 4.5                        | 3.4        | B         |
| Catalyst Charter School - Howland                              | 1.0                 | 2.0                      | 5.3                         | 3.5                       | 3.5                   | 2.5                     | 4.5                        | 3.2        | B         |
| Passages Charter School  | 3.0                 | 3.0                      | 5.3                         | 3.5                       | 3.5                   | 2.5                     | 0.8                        | 3.1        | B         |
| UNO Charter School   | 4.0                 | 3.5                      | 0.8                         | 0.0                       | 3.5                   | 4.0                     | 4.5                        | 2.9        | B-        |
| Bronzeville Lighthouse Charter School                          | 2.5                 | 3.0                      | 3.8                         | 2.5                       | 3.0                   | 0.5                     | 3.8                        | 2.7        | B-        |
| Academy of Communications and Technology                       | 1.0                 | 0.0                      | 5.3                         | 3.5                       | 3.0                   | 0.5                     | 3.0                        | 2.3        | C         |
| Perspectives Charter School                                    | 3.0                 | 2.0                      | 3.8                         | 2.0                       | 3.0                   | 0.0                     | 1.5                        | 2.2        | C         |
| Choir Academy Charter School of Chicago                        | 1.5                 | 4.0                      | 0.8                         | 0.0                       | 3.0                   | 0.0                     | 0.8                        | 1.4        | D         |
| <b>AVERAGE</b>   | <b>3.1</b>          | <b>2.9</b>               | <b>4.9</b>                  | <b>3.0</b>                | <b>3.3</b>            | <b>1.9</b>              | <b>4.2</b>                 | <b>3.3</b> | <b>B</b>  |
| <b>MEDIAN</b>  | <b>3.3</b>          | <b>3.0</b>               | <b>5.6</b>                  | <b>3.5</b>                | <b>3.3</b>            | <b>1.5</b>              | <b>4.5</b>                 | <b>3.6</b> | <b>B+</b> |

Source: Chicago charter school audited financial statements FY2008

\* The capitalization ratio and profit margin ratio grades were weighted due to their greater financial importance. Each grade was multiplied by a weight of 1.5 to arrive at a final grade.

Complete financial information was not available for eight charter schools: Amandla Charter school, ASPRA Charter School, Polaris Charter Academy, Galapagos Elementary Charter School, Henry Ford Academy/Powder House High Charter School, Alain Locke Charter Academy, the University of Chicago Charter School, Urban Prep Academy for Young Men Charter School

<sup>273</sup> "Cash-Strapped Charter School to Close," from Chicago Breaking News Center, November 20, 2008. See <http://Archive.Chicagobreakingnews.Com/2008/11/A-Financially-Troubled-Chicago-School-Geared.Html>.

<sup>274</sup> ACT voluntarily suspended educational services in 2010 and may continue to provide educational services after submitting the appropriate materials to the Board of Education. Information provided by CPS, April 15, 2011. Also, see [http://www.cps.edu/About\\_CPS/The\\_Board\\_of\\_Education/Documents/BoardActions/2010\\_05/10-0526-EX4.pdf](http://www.cps.edu/About_CPS/The_Board_of_Education/Documents/BoardActions/2010_05/10-0526-EX4.pdf)

## ***Benchmark Analysis***

As part of its General Performance Assessment analysis, the District of Columbia Public Charter School Board uses several indicators to measure individual charter school performance against its own internal benchmark standards.<sup>275</sup> We have employed three of these measures to provide a similar Chicago benchmark evaluation:

- **Payroll Ratio < 50%:** This indicator isolates payroll costs from total instruction costs and then divides them by gross revenue to measure whether half or more of a school's gross revenues are used to pay for payroll. Payroll costs include salaries, payroll tax and benefits, consultants, administrative and professional services and pension expenses. Increasing amounts spent on payroll means that less money is available for other school activities and functions. High payroll ratios may be difficult to sustain over time absent new revenues or reduced costs. *A payroll ratio of less than 50% is desirable as it means that personnel costs - the single largest expense in a school – are not consuming a majority of expenses.*

It is important to note that payroll costs may well increase in schools as teachers receive longevity raises or more experienced teachers are hired over time. This is not necessarily a negative factor as teaching is the core function of an educational institution and it is the single largest item of expenditure. The key issue is that increased personnel costs do place a fiscal strain on school budgets that must be met, either through increases in revenues or reductions other areas of expenditure.

- **Occupancy Ratio <25%:** The occupancy ratio is a measure of how much of total revenues are consumed by the costs of occupying and maintaining school facilities. The formula for calculating the occupancy ratio is Occupancy Cost/Gross Revenue. Occupancy costs include rent, lease or mortgage payment; utilities, maintenance costs, real estate taxes, insurance related to building, uncanceled repairs, gym rental and telephone and internet expenses. It does not include custodial or equipment lease expenses. Gross revenue is total revenue. The lower the occupancy ratio the better as fewer resources are being used to pay for occupancy expenses. An occupancy ratio of 10% to 15% is preferred. *An occupancy ratio of 25% or greater means that the school may be using too many too many resources to pay for facility expenses.*
- **Payroll + Occupancy Ratio < 75%:** This measure combines the payroll and occupancy ratios to provide a measure of the degree to which gross revenues are used to pay for basic operating costs. A ratio higher than 75% indicates that the school may be using too high a proportion of resources to pay for basic operating costs.

## Payroll Ratio

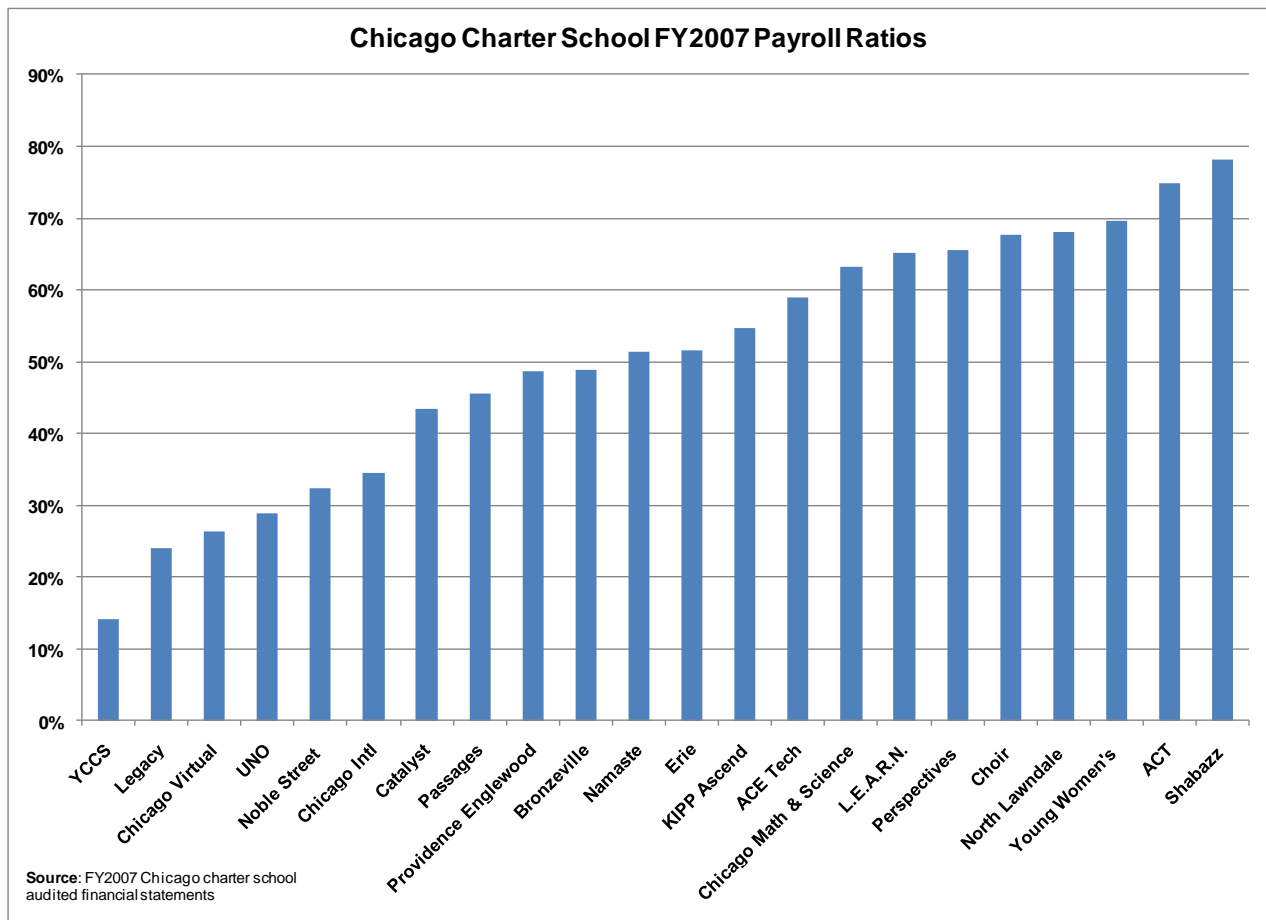
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<sup>275</sup> District of Columbia Public Charter School Board. *District of Columbia Fiscal Policy Handbook*, 3<sup>rd</sup> edition, July 2008, p. 60.

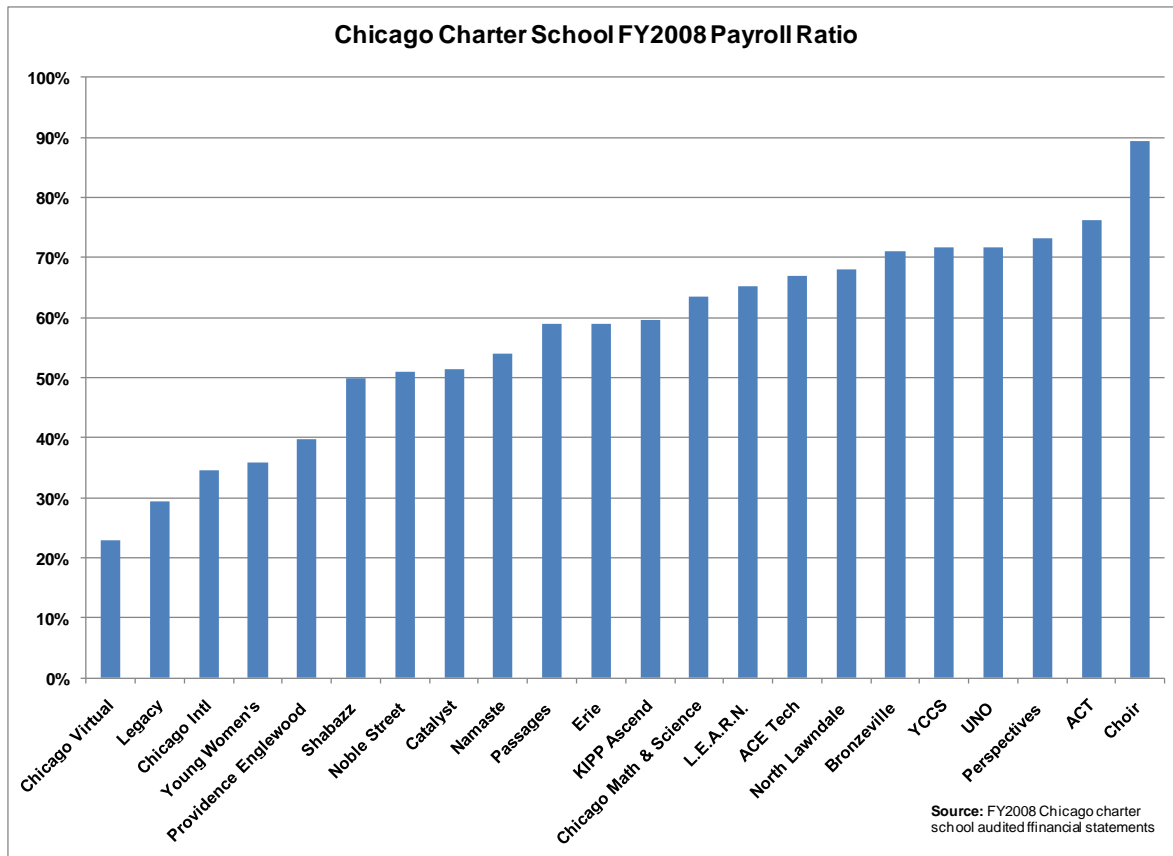


The next two exhibits show the payroll ratios of the twenty-two Chicago charter schools with full financial information available in FY2007 and FY2008.

In FY2007, ten of the schools, or 45.4% of the total, had payroll ratios of less than 50%. These ten schools were keeping personnel costs under control. The payroll ratios of the remaining twelve schools ranged from 51% to 78% for the Betty Shabazz International Charter School. The median ratio for the group was 52%.

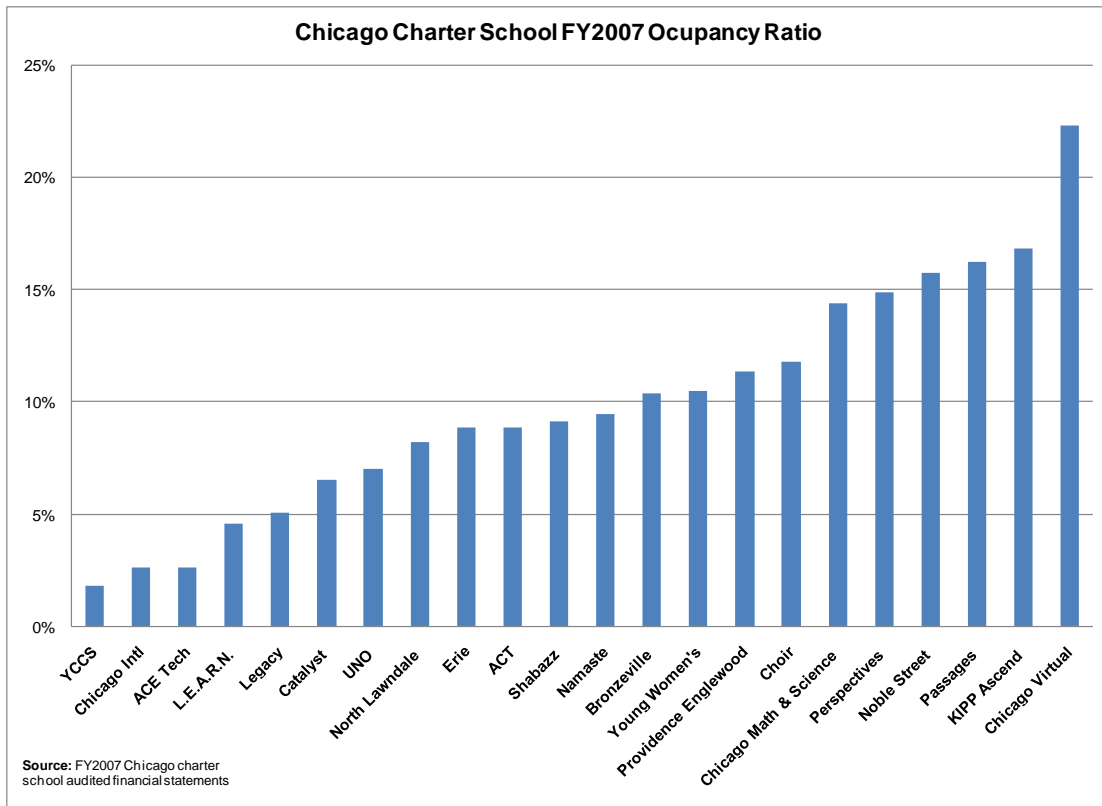


In FY2008, the number of charter schools with payroll ratios of 50% or less fell to six as payroll expenses consumed greater shares of most schools' resources. The payroll ratios of the remaining sixteen schools, or 72.7% of the total, ranged from 51% to 89% for the Choir Academy Charter School. The median ratio for the group was 59%, up from 52% the prior year.

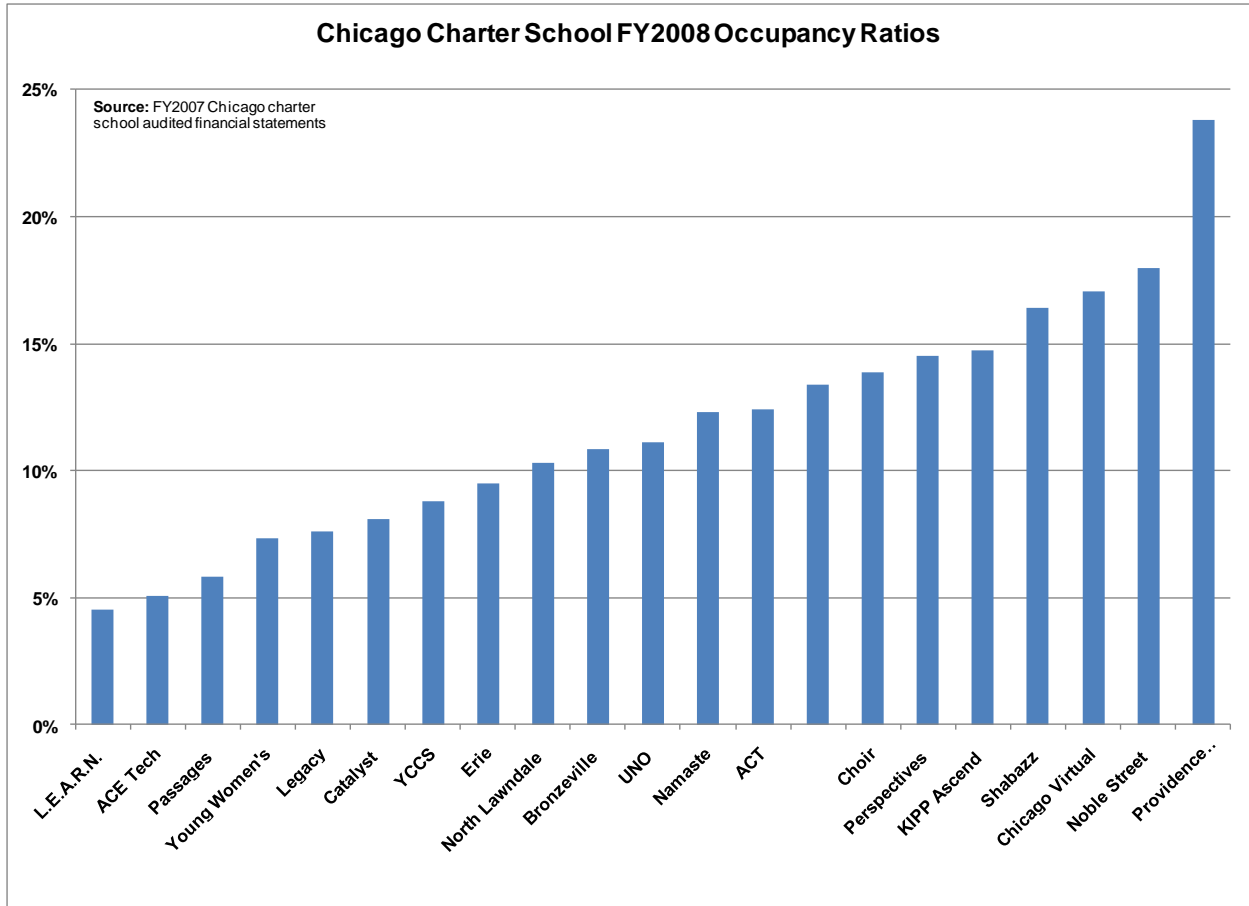


### Occupancy Ratios

The occupancy ratios of all Chicago charter schools were less than 25% in FY2007. This means that they were not using an excessive amount of resources to maintain their facilities. The median occupancy ratio was 9%.

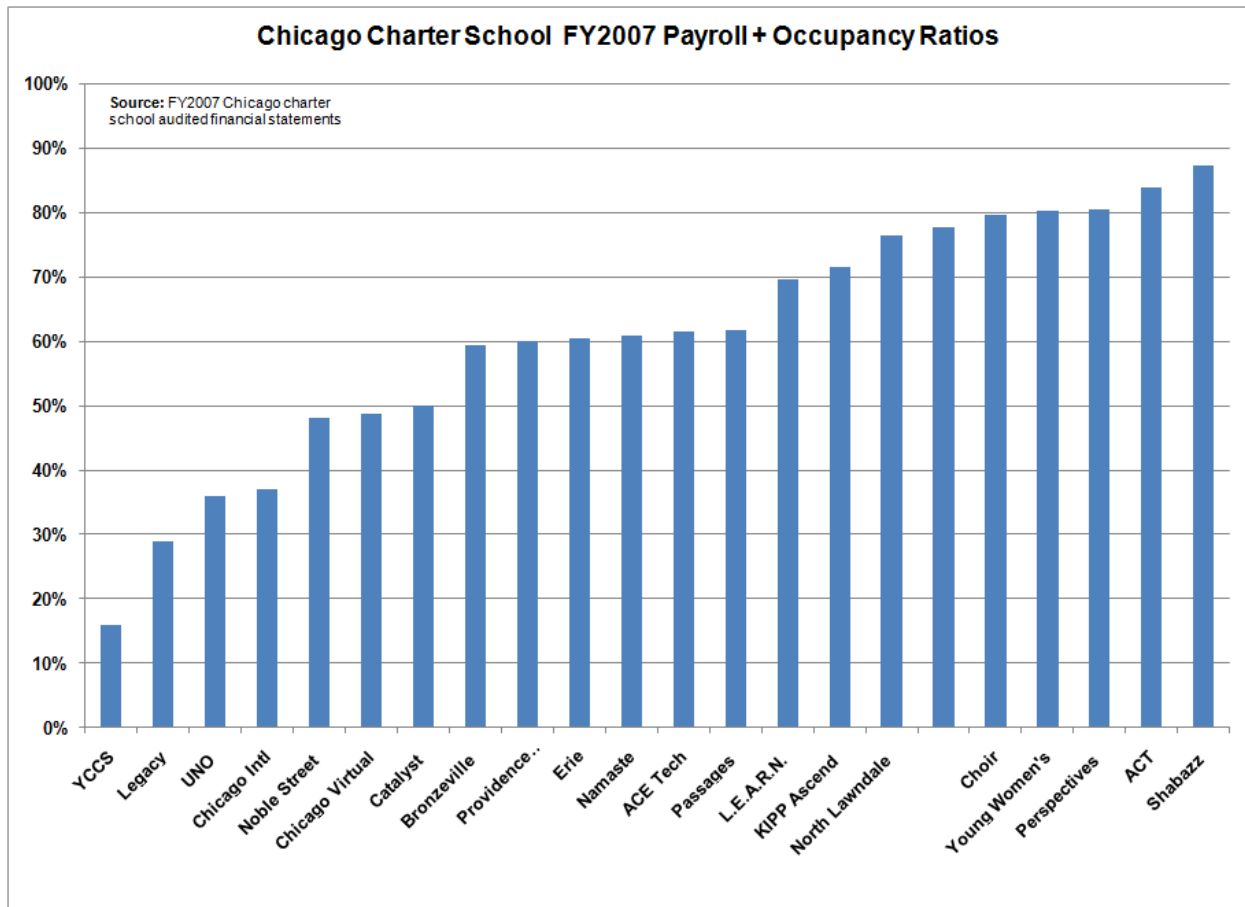


The following year much the same picture emerged when occupancy ratios were calculated for the Chicago charter schools. All twenty-two schools had occupancy ratios below 25%. Thus, they were using resources to pay for facility costs within a prudent range. The median occupancy ratio was 11%.

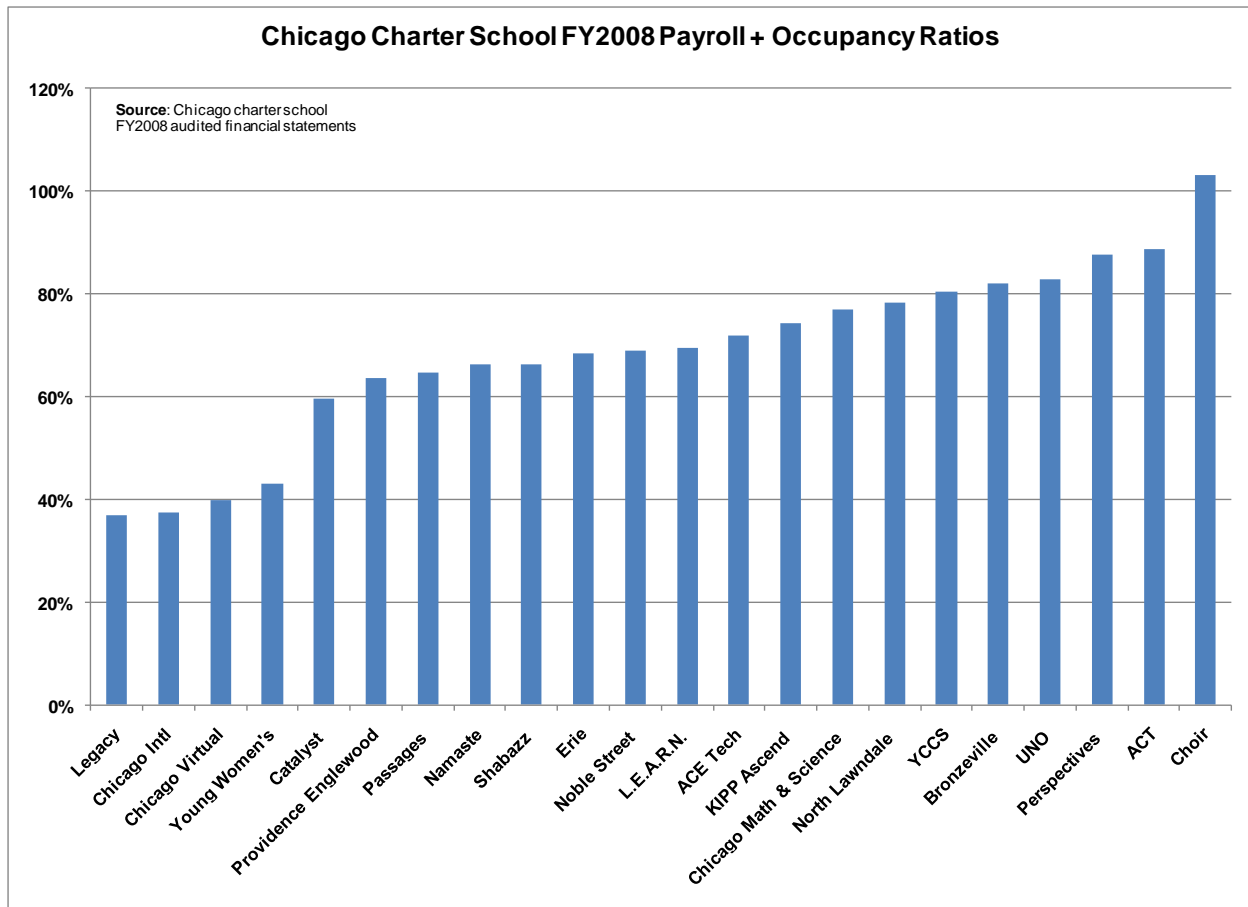


Payroll + Occupancy Ratios

In FY2007, fifteen of the twenty-two charter schools analyzed (68.2% of the total) had payroll + occupancy ratios of less than 75%. Thus, their spending on basic operations was moderate. The remaining seven schools had combined payroll and occupancy ratios ranging from 76% to 87%; these schools were spending a high proportion of resources to pay for basic operating expenses. The median ratio was 61%.



In the following year, the number of Chicago charter schools with payroll + occupancy ratios below 75% dropped slightly to fourteen. Their spending on basic operational expenses was moderate. The payroll + occupancy ratios of the other eight schools ranged from 77% to 103%. The median ratio was 69%.



### Benchmark Analysis Summary

A summary of the benchmark analysis reveals the following conclusions:

- Payroll Ratio < 50%:** A payroll ratio of less than 50% is desirable as it means that personnel costs are not consuming a majority of expenses. In FY2007, ten of twenty-two schools had payroll ratios of less than 50%. In FY2008, the number of charter schools with payroll ratios of 50% or less fell to six of twenty-two as payroll expenses consumed greater shares of most schools' resources. Increasing amounts spent on payroll means that less money is available for other school activities and functions. High payroll ratios may be difficult to sustain over time absent new revenues or reduced costs.
- Occupancy Ratio < 25%:** An occupancy ratio of 25% or greater means that the school may be using too many too many resources to pay for facility expenses. The occupancy ratios of all Chicago charter schools were less than 25% in FY2007 and FY2008. *This means that the schools were not using an excessive amount of resources to maintain their facilities.*

- **Payroll + Occupancy Ratio < 75%:** A ratio higher than 75% indicates that the school may be using too high a proportion of resources to pay for basic operating costs. In both years analyzed a majority of the twenty-two schools had payroll + occupancy ratios of less than 75%. In FY2007, fifteen of the twenty charter schools analyzed had payroll + occupancy ratios of less than 75%, while in FY2008, the number of schools dropped slightly to fourteen. *Therefore, the majority of schools did not use an excessive proportion of total resources for basic operations in either year.*

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