

Getting It Done

How Michigan's Charter Schools Survive – and Thrive – With Less



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Michigan's current economic crisis is forcing tough questions for public schools across the state. The prospect of mid-year budget cuts and future shortfalls has led to difficult discussions about how schools can deliver educational services without trading quality for affordability. There are no easy answers.

As the search for solutions continues, however, it is instructive to look at the financial choices that have been made in Michigan's charter public school community. For years, these schools have been making educational gains while receiving considerably less funding than their host district peers. It is important to note that charters are not perfect or infallible in their efforts; however, as in any industry there are models of strategy and performance that merit further exploration.

In this paper, we'll offer an overview of how some charters have managed their tough budget issues without sacrificing student performance gains. We hope these fiscal innovations will serve as a solid illustration and starting point for school leaders and policymakers alike.

Beating the Odds



Like district public schools in Michigan, charter public schools receive a portion of their state funding in the form of a per-pupil foundation allowance. This amount is capped for charter public schools; it cannot exceed the lesser of (i) the amount received by the school district in which the charter school is located, or (ii) \$300 above the state's minimum foundation allowance as annually determined by the Legislature. In addition, charter public schools are also eligible for categorical funding and competitive grant opportunities.

Unlike other local school districts, however, charter public schools cannot levy taxes for buildings and infrastructure. Thus, charter public schools must also pay for their facilities from their operating budgets, which are smaller than those received by their conventional K-12 peers.

In addition, a portion of each school's per-pupil foundation allowance is paid to the school authorizer to cover legally-required oversight, administrative and programmatic costs, as well as the cost of any additional technical assistance.

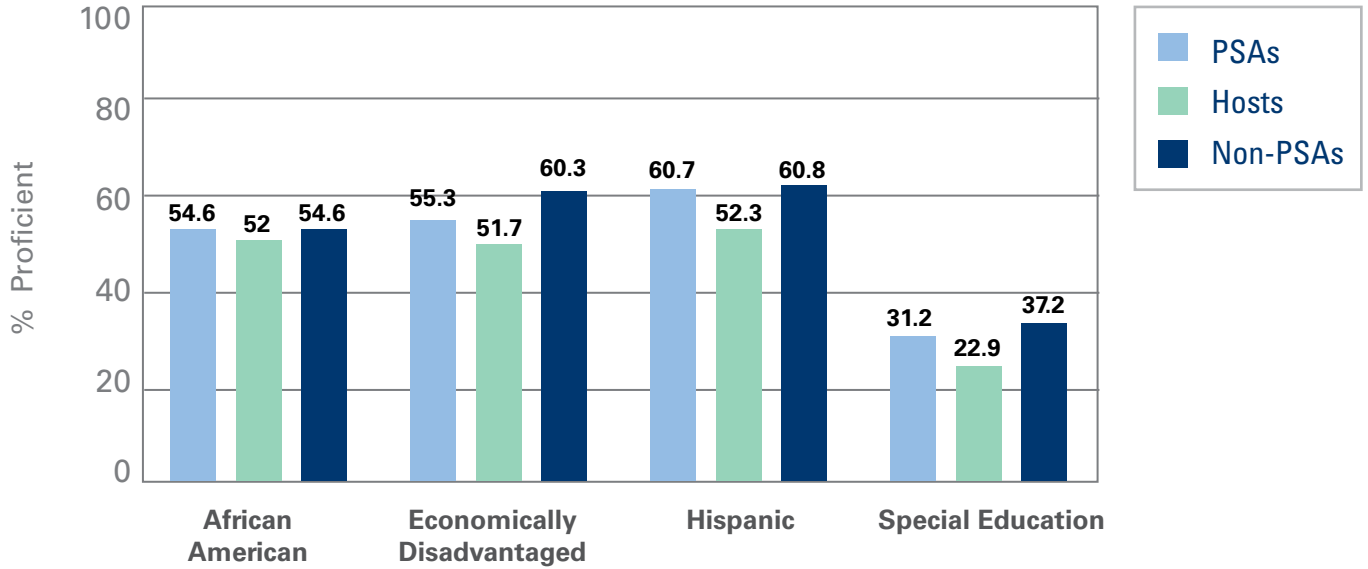
This funding structure leaves Michigan's charter public schools at a significant disadvantage relative to their K-12 district peers. Most recently, a report from the Michigan Department of Education (MDE) stated that:

...During the 2004-05 school year, total PSA revenues lagged non-PSAs by an average of \$1393/pupil, and lagged host district revenues [the 18 mostly-urban districts which house three or more charter schools] by an average of \$2612/pupil. (MDE, 2006)

When considered in the aggregate, these numbers are staggering. Statewide, charter schools are funding operations, paying for a facility, footing the bill for their own oversight, and educating kids at a cost that is approximately **\$195 million** lower than if those same students had stayed in the nearby urban host district. (MCCSA, 2006)

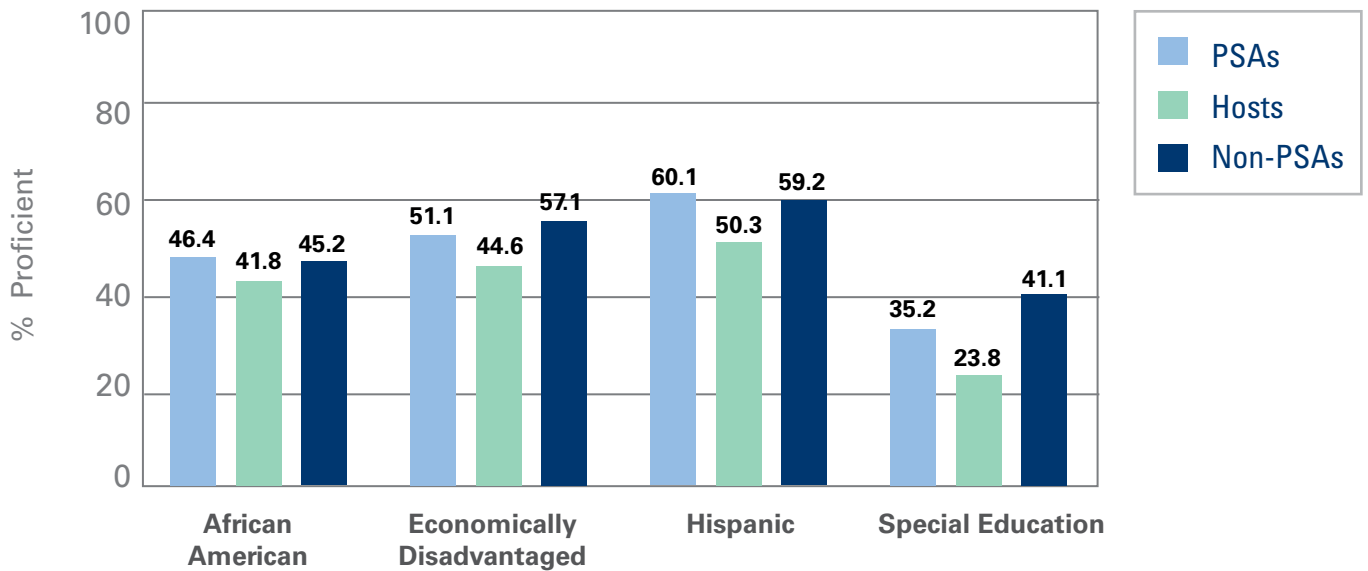
Despite this considerable funding disparity, the educational achievements of students attending charter public schools continue to grow with each passing year and are beginning to outpace those of the state's urban host districts. Michigan Education Assessment Program (MEAP) scores compare very favorably, and a review of disaggregated subgroup data shows that charters are reaching poor, urban minority kids in a way that conventional city schools are not (see charts on next pages).

Grades 3 - 8 ELA MEAP by Subgroup (Fall 2005)*



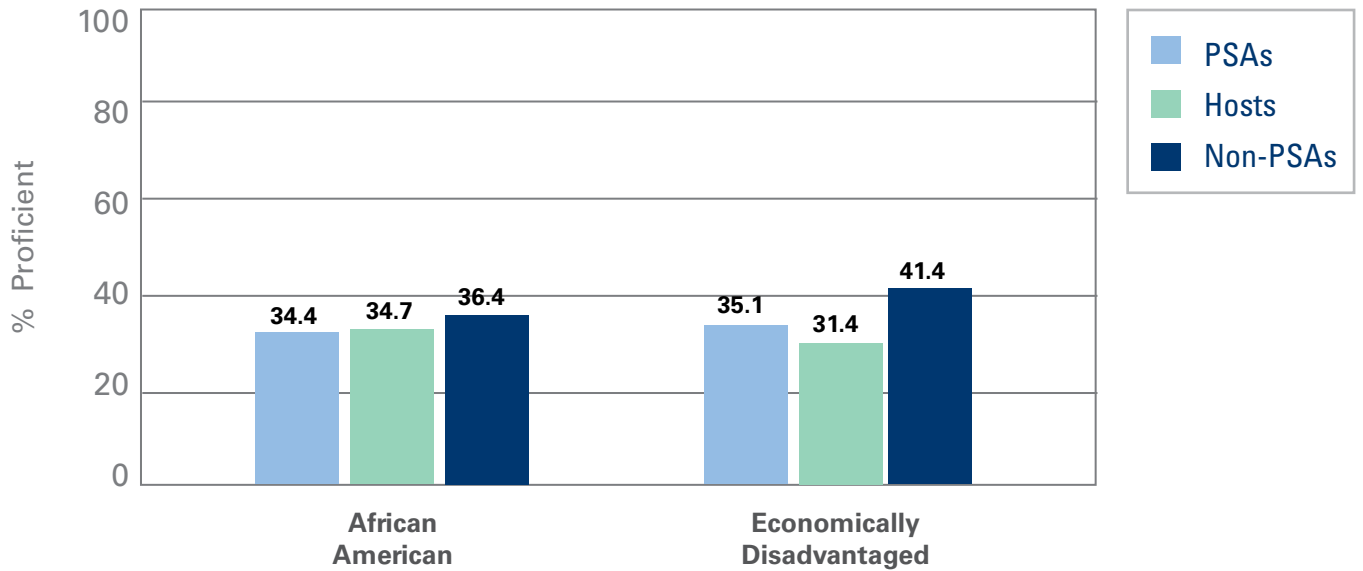
*Source: Michigan Department of Education

Grades 3 - 8 Math MEAP by Subgroup (Fall 2005)*



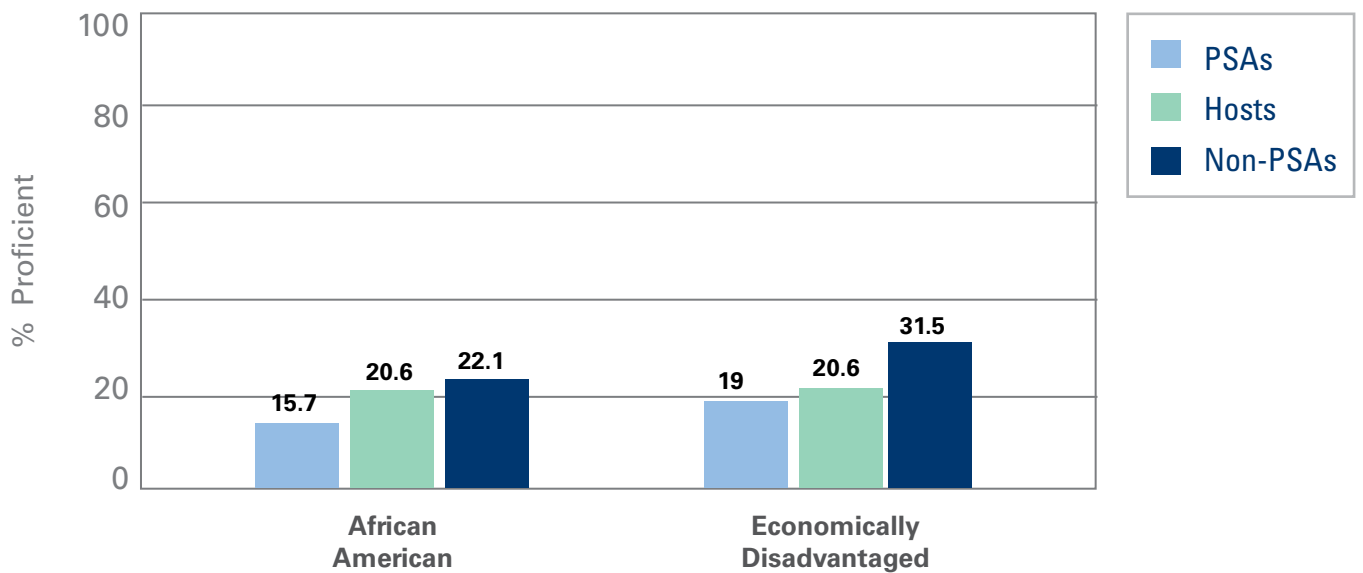
*Source: Michigan Department of Education

High School ELA MEAP by Subgroup (2005 - 2006)*



*Source: Michigan Department of Education

High School MEAP by Subgroup (2005 - 2006)*



*Source: Michigan Department of Education

In MEAP results reported in January 2007, Michigan's charter public schools exceeded the average scores of their host districts on 23 of 27 MEAP tests, tied on three others and are one point shy on the final test - once again delivering a better performance than the previous year. Charter public schools in Detroit exceeded the local district on 24 of 27 tests

- up from 20 last year. Fifty charter schools - 42% of the 120 that took all 27 K-8 tests and had classes large enough to record scores - exceeded the state average on 10 or more tests. (MAPSA, 2007)

Enrollment and waiting list data also show that the charter option is highly sought after by students and families. Approximately 10,000 Michigan school children are presently on charter school waiting lists. (MAPSA, 2007)

These performance results are essential to show that student achievement is not directly tied to the number of dollars spent. Charter public schools have developed a series of innovations that allow them to achieve solid student outcomes at a substantially lower cost.

A Look at the Innovations

Although each charter public school has adopted its own unique fiscal strategies that reflect local needs and concerns, there are some common trends across the Michigan charter community. Following is a brief exploration of these frequently-utilized operational elements.

Administrative Structures

Michigan charter public schools have lean administrative staffing plans with few layers of management. There are often only one or two school leaders who serve in a broad array of administrative capacities ranging from chief executive to lunchroom monitor and everything in between. In most cases, charter public schools do not employ dedicated staff for specialized tasks, but rather work with teacher leaders, community members and parent volunteers to accomplish necessary administrative objectives.

Other critical administrative duties at the charter school may be undertaken by teacher leaders that have been empowered to assume additional responsibilities. Typical arrangements include teachers working to provide curriculum leadership and support, special education leadership, and other administrative functions. This approach is not only cost-effective, but also results in teachers that feel empowered and invested in the future of the charter school.

It is worth spending a moment on this point. Research studies have shown a strong positive correlation between teacher empowerment and job satisfaction. A 2002 study conducted at the Columbia University Teachers College found that:

....Teacher leaders express a strong need to grow, and an interest in the policies of the school. They value the leadership role as a source of additional job satisfaction...The structure of leadership as a differentiated staffing position is a contributing factor to all teachers' sense of job satisfaction, since teachers are able to find a combination of classroom and leadership duties that is sufficiently challenging and satisfying. (Ribbens, 2002)



Thus, charter schools are piloting a “win-win” fiscal/operational strategy that builds teacher leadership and job satisfaction while generating overall cost savings for the school. This is a model that is particularly worthy of consideration by conventional K-12 schools as future cost reductions are evaluated.

Many charter schools have adopted the same approach with school board leaders. These schools benefit from an atmosphere where volunteer board members contribute the skills, resources and time at their disposal. This not only saves valuable administrative dollars, but also ensures that board members are more engaged

on campus and have in-depth familiarity with the challenges and strengths of their school and community.

It should be noted that the results achieved by these dedicated teams of school leaders continue to be solid. Charter school authorizers work closely with each school to assure timely compliance with all aspects of state and federal law and with the specialized terms of the school’s charter contract. Authorizers have, therefore, been given a front-row seat to observe these school leaders as they adopt and align curricula, hire and manage staff, handle tough budget issues, work with parents, file thousands of pages of necessary reports, monitor ongoing school improvement matters and much more, with what is normally far less than the human and financial resources that are available to their district school peers.

Teacher/Administrator Compensation and Benefits

Excellent school leadership and teacher quality are essential for the operation of a strong academic program. Although there are fewer dollars available for compensation in charter public schools than in district schools, the charter community has done an admirable job of recruiting highly qualified, certified professionals to work in their schools.

In this important regard, the outcomes speak for themselves. The annual achievement gains posted by charter public school students in the last decade could not be accomplished without the utilization of quality staffing and leadership.

As mentioned above, the innovative use of teacher leaders has resulted in increased job satisfaction, as well as administrative cost savings for charter public schools. Charter public schools also offer staff a teaching opportunity in an environment that many have called “small and family-like.” These distinctive characteristics have made charter public schools appealing workplaces for many Michigan teachers.

Like other public school employees, charter public school employees may unionize. Although some charter public school employees have unionized, most have chosen not to do so.

According to the Michigan Department of Education, teacher compensation in charter public schools has been lower than in district schools. The average charter public school teacher salary in 2004-05 ranged from \$23,000 - \$55,000, with an average of \$36,583. This amount was \$17,376 less than the statewide salary average of \$53,959 for district public school teachers. (MDE, 2006)

To put these numbers in context, it is important to remember that Michigan's district school teachers are among the highest paid in the nation. Charter public school teacher salaries are lower, but they are not out of line with what teachers are receiving elsewhere in the U.S. This level of compensation is also not inappropriate relative to that received by individuals in other human services professions.

Another factor that results in lower charter public school teacher salaries is the fact that the schools themselves are little more than a decade old. This means that relatively few charter school teachers have more than ten years of seniority in their schools - at the top of their scales - compared to 25 or 30 years in district schools.

The health and retirement benefits available through Michigan charter public schools are also more closely aligned with those available in other employment sectors, both private and governmental. This information is difficult to quantify, given that each charter public school determines its own benefits, just as do district schools.

Generally speaking, however, most charter public school teachers receive medical, dental and vision benefits through major carriers. In many cases, charter public school personnel contribute to the costs of these plans. It should be noted that the use of employee contributions for health insurance is a growing trend in district schools as well.

In many instances, charter public school teachers also receive long-term care and life insurance benefits through the school.

The Michigan Chamber of Commerce also works with 49 Michigan charter public schools, 34 of which contract with a single educational service provider (ESP), to provide insurance benefits. Through this program, which has been endorsed by the Michigan Association of Public School Academies (MAPSA), participating charter public schools receive a customized benefits package that is tailored to the specific needs of each school and its employees.

Charter public schools that employ their teachers and administrators through an ESP are not, by law, permitted to participate in the Michigan Public School Employees Retirement System (MPERS). Generally speaking however, these companies offer their employees competitive 401K retirement packages that may offer an employer "match." The cost of these benefits tends to be lower, particularly in relation to the MPERS system. These packages vary by ESP.

Teachers and administrators who are employed directly by a charter public school board are, by law, automatically included in MPERS. Some charter school boards choose to employ staff this way, considering it a compelling tool for teacher recruitment and retention.

Education Service Providers

For many charter schools, the cost of establishing and maintaining a successful academic operation is too significant to be borne in isolation. Some boards, therefore, opt to use ESPs as a way to not only manage their daily administrative tasks, but also to help offset many expenses over time. The inequities inherent in Michigan's charter school funding structure have made ESPs a frequent solution for many school leaders in need of both management and financial support.

Education Service Providers (continued)

From a financial perspective, the use of an ESP offers an individual charter school some economies of scale. Pooled purchasing power, the consolidation of key administrative, regulatory and compliance functions, and affordable access to skilled experts makes the use of an ESP a solid option for many schools. In addition, many ESPs offer temporary financial support as charter public schools get up and running, but before state aid funds begin flowing in.

Charter schools use ESPs for different purposes. Some rely on an ESP for a few particular services, while others benefit from a “turn-key” approach where the board contracts with the ESP for all critical functions. The charter school board typically makes its decisions based on its own unique needs, concerns and financial situation.

Transportation

According to MDE and the Revised School Code, no Michigan public school district – charter or otherwise – is required by law to provide transportation to its students.¹ However, the state does require that if a school district chooses to provide transportation to one student in a grade level, then it must provide transportation to all students in that grade level who live more than 1.5 miles from the school.

Though the Revised School Code is silent relative to charter public schools, providing transportation presents them with a special challenge, because they do not have limited geographic boundaries; rather, their boundaries are considered to be the border of the state of Michigan if authorized by a state university or tribal community college, as most are. This causes a great many practical challenges for charter public schools trying to design effective bus routes.

Currently, approximately ten percent of Michigan’s charter public schools provide transportation. As a percentage of expenditures, the costs associated with this service ranges from less than one percent to as much as 15 percent. It should be noted that any school that does not provide transportation faces an obvious disadvantage in today’s competitive K-12 marketplace. Thus, charter public schools have to make careful decisions about the impact their choices relative to pupil transportation will have on a broader scale.

Some charter public schools have decided not to provide transportation in an effort to bring parents and caregivers to campus at least once every day. In some instances, these schools offer space on campus for adult learning resources, parenting information, and even free computer access. By bringing adult family members to campus each day, these schools help boost parental involvement and strengthen home/school connections.

Along with others in the public education community, charter public schools are open to the notion of collaborative transportation arrangements and seek to foster new ways of addressing this issue.

¹ There is one exception to this statute: according to the Michigan Department of Education, the school district is obligated to provide for the transportation of a special education student if the Individualized Educational Planning Committee (IEPC) has determined that the transportation is a specialized service which is included within and necessary to carry out the student’s IEP.

Special Education Services

Many charter schools have adopted special education strategies that are both at the forefront of educational practice and more cost-effective than traditional remediation methods. Using early intervention strategies, charter schools are able to implement a system that provides advance screening, assessment and intervention to prevent long-term learning difficulties.

The U.S. Department of Education and other pedagogical experts across the country are working to support all schools in the adoption of early intervention approaches. In particular, there is a growing base of support for a particular strategy known as Responsiveness-to-Intervention (RTI), which has already shown a great deal of promise. Michigan's charter school community is embracing RTI and is currently working to build a base of solid research data that will help support this important paradigm shift in the field of special education.

There is a great deal of evidence showing that children who receive early intervention services such as RTI reap substantial benefits over time. In fact, the effective utilization of research-based intervention at a younger age increases the likelihood that a pupil will achieve success without the need for ongoing special education services later on. According to the National Joint Committee on Learning Disabilities, there are other benefits as well.

Potential benefits ... include (1) earlier identification of students with LD using a problem-solving approach rather than an ability-achievement discrepancy formula with the expectation of minimizing "wait to fail," (2) reduction in the number of students referred for special education, (3) reduction in the overidentification of minority students, (4) data that are maximally relevant to instruction, (5) focus on student outcomes with increased accountability, and (6) promotion of shared responsibility and collaboration. (NJCLD, 2005)

Charters have readily adopted early intervention strategies because they make good financial sense in an environment where every dollar counts. While early invention is slightly more costly up front due to training expenses and the purchase of necessary screening, assessment and tracking instruments, charter schools have found that they can be staffed more effectively at the school level with existing faculty as well as paraprofessionals and trained volunteers. Ultimately, these programs are often so effective that special education services are no longer required as the child moves into the later grades. Thus, the financial benefit of this approach is spread out over time and can be significant.

High School Instruction

A growing number of charter public schools in Michigan offer educational programming in grades 9-12. Currently, there are more than 75 charter high schools operating in the state. (MAPSA, 2007)

It has taken time for charter schools to build their capacity to deliver quality educational opportunities in the high school grades. Most charters begin working in the elementary grades with the goal of adding one grade each year as their school gains footing in the community; many have accomplished this essential objective and continue to make progress toward offering full K-12 programs.

As charters expand their expertise in the secondary grades, more emerging models of

High School Instruction (continued)

financial and administrative innovation are beginning to take hold. Charter public schools are making strong use of community partnerships to enrich their high school programming, which results in improved academic offerings, strengthened links to local leaders and organizations, and access to private dollars for program support.

In particular, charter high schools have made good use of dual enrollment opportunities with nearby institutions of higher learning and/or online course programs. Unable to afford dedicated staff members working in specialized or advanced subject areas, charter public schools are working with community colleges and other institutions to ensure their pupils have access to instruction in the courses and subjects they need. This approach has been very effective in boosting student achievement and achieving appropriate fiscal results for the school.

Although the concept of community partnership is a familiar one among K-12 educators, it is the extent to which they are utilized by charters that makes them a noteworthy innovation. These schools have learned to look outside their walls to find the resources their students need, and have been creative in arranging opportunities for enrichment and learning.

Facilities

Charter public schools in Michigan cannot levy taxes for buildings and infrastructure. Charter public schools must pay for their facilities out of the foundation aid (operating dollars) they receive from the state. Charter public schools therefore rely on innovative facilities arrangements and financing options to secure safe, suitable learning environments for their children.

Charter schools utilize a myriad of facility models to serve students at all levels, including former parochial, public and private schools, newly constructed facilities, modular facilities, and alternative facilities that were never used as a school until the charter moved in. Some have been developed with alternative uses in mind, while others developed specifically as a “special purpose” school facility.

Typical lease terms for charter schools are on a triple net basis, which means the tenant is responsible for most operating expenses such as real estate taxes, insurance, utilities, and repairs and maintenance. The average leasing costs can range greatly depending on the size, condition, and location of the facility. One 2006 appraisal provided City of Detroit and metro area leasing comparables for one school that ranged from \$7.07 to \$22.50 per square foot on a triple net basis, while another 2006 appraisal with Flint, Lansing, Detroit and Holland areas comparables had leasing costs ranging from \$8.44 to 17.36, triple net . (Charter FS of Michigan, LLC client data)

Please note that the lease and sale price data above was obtained from appraisals that have been completed for specific charter schools and include comparable data to that specific school. It is likely that the dollar per square foot ranges for leases and sale property would be much greater if more comprehensive data were available.

It should also be noted that, unlike office buildings that have a typical construction type and therefore provide for easy comparatives and acceptable standard rental averages, charter school facilities have no typical construction type.



Thus, it is more challenging to identify an acceptable rental average for the industry.

Some academies also adopt lease to purchase arrangements that allow the academy to build a stable track record and credit history before purchasing the facility through more traditional banking and public finance markets. The most commonly used option provides for a charter school to lease an existing facility and then purchase it after a 3-7 year period.

Charter schools have financed facilities through the use of traditional mortgage arrangements when obtaining bank loans or issuing bonds. Unlike traditional districts that secure financing through property tax millages, charter schools only have student enrollment counts to provide a certainty of cash flow from State per pupil funding. To secure a mortgage, charter schools seeking to own a facility have appraisals completed on the property to determine its value, the results of which can drive the financing vehicle utilized in the transaction.

According to a December 2004 appraisal, comparables for the sale price of facilities used as charter schools in the Detroit metro area ranged from \$58.58 to \$172.13 per square foot. A more recent 2006 appraisal found sales prices ranging from \$106.08 to \$155.00 per square foot in a broader county area that included comparables from Macomb, Monroe, Washtenaw, and Wayne. And a third appraisal for a Lansing area charter school had sales comparables range from just \$29.61 to \$41.02 per square foot. (Charter FS of Michigan, LLC client data)

It is important to note that some schools are also using their facilities arrangements to help develop, stabilize and revitalize core neighborhoods and communities. For example, Detroit Community Schools (formerly Detroit Community High School) purchased a light industrial facility in a struggling neighborhood. The Academy incorporated “green” building strategies such as adaptive reuse of the structure, recycling of materials, HVAC efficiencies, and created a day lit classroom “marketplace” to support the charter school’s Waldorf-inspired curriculum. Thus, the school is not only educating kids in the classroom, it is also helping restore and rebuild a community in need.

Conclusion

For more than a decade, Michigan’s charter schools have offered an alternative educational option for tens of thousands of the state’s children. Now they have an opportunity to offer something more – an alternative financial model for a K-12 community that faces profound economic uncertainty.

The strategies outlined in this document are just a few among many innovations being used by educators across Michigan. There are many other models in place. In concert, these fiscal approaches are working to allow for solid gains in student achievement at a cost that makes more sense for families and communities throughout our great state.



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