Indiana’s Strategy for Funding Charter Schools
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Indiana’s Strategy for Funding Charter Schools

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Major Findings

The major conclusions in this report are:

Planning and Start-Up

1. No state funds are provided for charter school planning, design, and start-up activities.
2. Substantial private and federal funding is available for planning, design, and start-up.
3. While for-profit entities are barred from organizing charter schools themselves, these organizations are eligible to contract for the management and operation of charter schools and therefore may be a likely source of planning and start-up funding.

Day-to-Day Operations

1. A challenge presented to policymakers by S.B. 165 is to disaggregate the corporation-level revenue generated by the Indiana school funding formula, in order to determine the pupil-level amounts to be allocated directly to charter school organizers.
2. Although students attend school from September to May, both state tuition support and funding for students with disabilities are distributed on a calendar-year basis (i.e., January to December). Thus, state funds for students attending an Indiana public school in September are not allocated to the school until January. Therefore, charter school operators will receive no state support in their first four months of operation.
3. Ambiguity exists in S.B. 165 concerning the time when general fund property tax levies are to be distributed to charter schools. The logic of the Indiana school funding formula, though, seems to preclude charter school start-ups from receiving local revenue collected during the calendar year in which they open.
4. The three attributes that will determine the relative financial impact of charter school enrollment on the state, the resident school corporation, the charter school, and the parent(s) are: (a) whether the child entering a charter school is moving from public education or from private/home school, (b) whether the child resides in a low-revenue or high-revenue school corporation and, in the case where the child is moving from a private/home school, how the revenue in the child’s resident school district is determined, and (c) how expensive the child is to educate.
5. The critical financial policy challenges are: (a) how to address fairly the potential for “creaming” of low-cost students; and (b) how to mitigate fairly the potential that minimum-guarantee school corporations will lose revenue due to the actions of students who never attended the district’s schools.

**Buildings and Other Large-Scale Capital**

1. Charter schools do not appear to be eligible for the forty dollars ($40) per ADA in grades 1-12, a flat grant provided for capital purposes.
2. The state contribution to a school corporation’s debt service fund through property tax replacement credits on debt incurred prior to 1984 appears unlikely to transfer to charter schools.
3. Substantial private and federal funding are becoming available for capital purposes.

**Equipment and Textbooks**

1. Indiana parents are expected to pay for textbooks and related materials. Parents of children in charter schools will also pay for textbooks and materials.
2. State government, though, reimburses school corporations, through the School Textbook Reimbursement Contingency Fund, for textbook and related school fees for children living in poverty. These reimbursements will also be available to charter schools.

**Transportation**

1. S.B. 165 does not specify to what extent charter schools or school corporations must provide transportation to charter school students, but if the school corporation does transport charter school students, the law places a ceiling on what a school corporation may charge.
2. S.B. 165 appears to allow charter schools to operate their own transportation programs and receive state support through the transportation formula. If this is the case, the formula may need to be revised.
3. If S.B. 165 were to lead to an unavailability of transportation for charter school students — either because the school board chose not to offer transportation or because the charter school declined to pay for it — the consequence would be to limit choice for students who could not provide their own transportation. This could lead to the exclusion of students whose economic or geographic situation limits their ability to obtain transportation to the charter school as well as special needs students whose transportation costs are very high.
Monitoring, Oversight, and Technical Support

1. The costs charter school sponsors will incur are likely to require universities that sponsor charter schools to seek additional revenue sources to subsidize their involvement.

2. To the extent that appeal proceedings involve legal counsel, the cost of rejecting charter school proposals could become prohibitive.
Indiana’s Strategy for Funding Charter Schools

Introduction

Senate Bill (S.B.) 165 provides public funding for charter schools in Indiana and introduces a wide range of new education policy questions for state and local decision makers. This paper focuses solely on the financial issues facing the organizers and sponsors of charter schools, Indiana public school corporations, and the state government. Although this report contributes to the national debate on charter schools and is influenced by the experiences of other states, it intentionally does not replicate previous cross-state analyses of charter school finances.\(^1\) Instead, the focus of the paper is on Indiana and seeks to provide Hoosiers with guidance about the specific charter school legislation passed in Indiana.

Any finance plan for public education must provide resources for:

- Planning and start-up,
- Day-to-day operations,
- Buildings and other large-scale capital,
- Equipment and textbooks,
- Transportation, and
- Technical support (e.g., legal and business expertise), monitoring, and oversight.

The establishment of charter schools within the public education system also requires the State of Indiana to consider new financial issues, including:

- *What are the criteria that should guide the disaggregation of school corporation revenues in order to determine the amount that should follow an individual child to a charter school?* For example, should the opening of a charter school generate growing enrollment funding for the school corporation in which the charter school students reside? Alternatively, should charter school enrollments be allowed to lower the funding received by a minimum-guarantee school corporation?

- *What incentives or disincentives, relative to other public schools, exist to provide particular instructional programs?* For example, are charter schools on an even playing field with regard to other public schools in the availability of special

\(^1\) See Nelson, Muir, & Drown (2000) for a comprehensive review of state charter school finance systems.
education or early literacy resources? Does the legislation favor the establishment of elementary rather than secondary charter schools?

- *How do formulas, such as the one that funds transportation, need to be revised* to account for the legislation’s requirement that “other state funding for any purpose” follow the student to the charter school?

- *What costs are charter school sponsors likely to incur?* How will charter school sponsors be reimbursed for these expenditures? What flexibility exists for charter school sponsors to supplement whatever income they receive from the state formula?

This paper will first review how the Indiana charter school law, S.B. 165, addresses such financial issues. A preliminary review of the legislation suggests that the Indiana charter school law is silent or insufficiently precise on a number of these questions. In these cases, this paper will review the goals that the law appears to be seeking to achieve — and the conditions the legislation is trying to create — in order to identify effective school finance policy options that can address these still-to-be-answered questions.

**Planning and Start-Up**

*Indiana Plan*

How are charter school organizers to fund planning, design, and start-up activities? S.B. 165 is silent concerning this issue. The lack of state or local funding will require organizers to develop a source of funding before the charter school can enroll its first student. The intent of S.B. 165 appears to be for charter school organizers to seek grants, loans, or contracts that will generate revenue to cover these costs.

Charter school proponents in Indiana have established the Indiana Charter Schools Network and Resource Center (ICSNRC) that will assist groups and individuals interested in operating charter schools by providing technical assistance, referrals for technical assistance and financial assistance, and direct grants. According to the ICSNRC web site, “Planning grants of $3,000 to $5,000 each will be made available to assist potential charter school organizers with research, site visits and other costs associated with the initial development of charter school proposals. . . . Additional grants of $10,000
of $20,000 each will be made available for further development of promising charter school proposals” (ICSNRC, n.d., Resource Center, ¶ 3).

In addition, the federal government’s role in providing start-up funding to charter schools has grown substantially in recent years. The General Accounting Office (GAO) found that in 1996 over half of the charter schools surveyed received start-up grants from the federal government averaging $36,000. In 2001, the Elementary and Secondary Education Act (ESEA) provided $190 million to the Federal Public Charter School Program (ESEA Title X, Part C) that seeks “to stimulate continued growth in the number of charter schools” (2002 ESEA Budget Summary, p. 2) by supporting the planning and development of additional charter schools.

The Indiana Department of Education has received a three-year, $11.8 million grant from the federal Public Charter Schools Grant program. Charter schools will be eligible to receive up to $150,000 per year, for three years, for planning and implementation. The federal grant funds can be used for a number of expenses associated with program start-up and operations, but may not be used for capital projects or building renovations.

The pending reauthorization of ESEA could further increase this funding. The U.S. House of Representatives authorized the funding level be increased to $225 million in FY2002, while the President’s budget and the reauthorization that passed the U.S. Senate proposed an increase to $200 million (www.charterfriends.org/federal-legislation.html, updated August 27, 2001). In addition, the reauthorization of ESEA also proposes to consolidate several grant programs into a state-focused Choice and Innovation State Grants block grant program that will provide $471.5 million nationally — including $9.8 million for Indiana — in 2002 to support local innovative education programs, including charter schools.

Finally, a number of private foundations provide charter school grants. These foundations include:

- American Express Foundation (http://www.americanexpress.com/corp/philanthropy)
- Bell and Howell Foundation (803-235-3148)
Implications

National evaluations of charter schools repeatedly identify a lack of start-up funds as one of the top four barriers to their success (Berman, Nelson, Ericson, Perry, & Silverman, 1997, 1998, 1999, 2000), with the 2000 survey identifying the lack of start-up funds as the number one problem charter schools face. Resistance to the provision of public start-up funds is often based on the desire to expose prospective charter school operators to the discipline of the marketplace, require them to acquire external support, and therefore to weed-out less viable applicants (Millot & Lake, 1997).

While for-profit entities are barred from organizing charter schools themselves, these organizations are eligible to contract for the management and operation of charter schools and therefore seem a likely source of planning and start-up funding. Indeed, Nelson, Muir, and Drown cite “one reason for the growth of management companies is the ability to finance school start-up” (2000, p. 55). In Michigan, which also did not provide start-up funding, about 70 percent of charter schools contract with private, for-profit companies such as Edison, Leona Group, National Heritage Academies, or Mosaica (Arsen, Plank, & Sykes, 1999).

Day-to-Day Operations

Indiana Plan

S.B. 165 funds the day-to-day operations of charter schools through the existing school funding formula. Charter school organizers are to provide enrollment information
to the school corporations in which their students reside so that these pupils can be included in the corporation’s enrollment count for funding purposes.

Complications arise because the Indiana school funding formula is organized to fund 293 school corporations. The school corporation, and not the individual student, is the primary unit of measure in the formula. For example, the 175 minimum-guarantee school corporations will receive a fixed percentage total revenue increase in 2002, which is not influenced by changes in their student enrollments.

The challenge presented by S.B. 165 is to disaggregate the corporation-level revenue amount generated by the school funding formula in order to determine the following pupil-level amounts that are to be allocated directly to charter school organizers:

1. The full amount of tuition support and other state funding for any purpose for students in the charter school (Chapter 7, Section 3(b)(1));

2. A proportionate share of state and federal funds received for students with disabilities, or staff services for students with disabilities for the students with disabilities enrolled in the charter school (Chapter 7, Section 3(b)(2));

3. A proportionate share of funds received under federal or state categorical aid programs for students who are eligible for the federal or state aid enrolled in the charter school (Chapter 7, Section 3(b)(3)); and

4. A proportionate share of the general fund property tax levy, the auto excise tax, and the financial institutions tax for the students enrolled in the charter school (Chapter 7, Section 3(c))

While the Center for Education Reform’s Charter School Laws: Scorecard and Ranking 2001 (http://www.edreform.com/charter_schools/laws/ranking_2001.htm) concludes that under the S.B. 165 “100% of per-pupil (operating) funding automatically follows students enrolled in charter schools,” it is crucial to recognize that these funds “automatically follow” only after they are generated by the school funding formula. The four sources of revenue identified in S.B. 165 are allocated on widely different schedules. State Tuition Support and Other State Funding for Any Purpose

State tuition support funding lags initial attendance by four months, a practice that could severely compound the cash-flow problems created by the lack of state or local funding for planning and start-up. Students attend school from September-to-May, but
state tuition support is distributed on a calendar-year basis (i.e., January to December). Thus in the 2002-03 school year, state funding for students attending a school in September 2002 will not begin to be allocated to the school until at least January, 2003.\(^2\)

Therefore, it would appear that charter school start-ups would receive no tuition support in at least their first four months of operation.

The issue of “other state funding” will be addressed throughout this paper as it analyzes the various resource needs of charter schools (e.g., transportation, capital). At this point, though, it is important to recognize that relatively little state funding is allocated immediately, with the time lag varying substantially. For example, the calendar year 2002 regular education transportation distribution is based on several factors, including the number of students eligible to be transported in the 2000-01 school year. The calendar year 2002 special education transportation distribution, on the other hand, is based on the cost of transporting handicapped students in the 2001-02 school year. In both cases the receipt of transportation funds is delayed. In the former case, revenue is not available until 16 months after the service begins to be delivered; in the latter case, revenue is not available until four months after the service begins to be delivered.

*Funds Received for Students with Disabilities*

Students with disabilities are included in the enrollments used to allocate tuition support; therefore, the same four-month lag described above applies to this component of funding for handicapped students. The supplemental revenue provided specifically for special education students also lags attendance by four months. Special education counts are conducted in December, with the distribution occurring during the following calendar year. Thus in the 2002-03 school year, state funding for special education students attending a school in September 2002 will not begin to be allocated to the school until at least January 2003 (see footnote 2). Therefore, it would appear that charter school start-ups would receive no state support for students with disabilities in at least their first four months of operation.

\(^2\) In 2002 and 2003 state tuition support payments will be delayed so that only five payments occur before the fiscal year ends on June 30. Therefore, in the 2002-03 school year, it is likely that state funding for students attending a school in September 2002 will not begin to be allocated to the school until February 2003.
General Fund Property Tax Levy

Chapter 7, Section 3(c) of S.B. 165, which is cited above, indicates that charter school start-ups are to receive a “proportionate share of the general fund property tax levy.” The law does not address the time frame in which this is to occur, which leads to ambiguity in mapping the intent of S.B. 165 onto the logic of the school funding formula. It would appear that — as with tuition support and funding for students with disabilities — charter schools will not receive property tax revenue until the calendar year after the charter school opens. Unlike tuition support and funding for students with disabilities, which are distributed monthly, school corporations receive their initial property tax payment each calendar year in May or June. Therefore, it would appear that charter school start-ups would receive no property tax revenue in their first 8-9 months of operations. This situation could be particularly problematic in high property-wealth school corporations where property tax revenues can comprise the vast majority of general fund revenue.

Each year since 1973, the Indiana General Assembly has specified maximum general fund property tax levies for each school corporation. There are a few circumstances under which a school may impose a higher levy than permitted by the statute but only after applying for and receiving approval from two state agencies. Although there are some provisions for local referenda to raise additional revenue and modify local tax levies, only a small number of districts have used these procedures and only one district in the last decade has been successful.

Thus, for all practical purposes, the general fund property tax levy is set at the beginning of the calendar year by the state school formula that generates revenue based on district enrollment data from the previous September. In the formula, a district’s calendar-year tuition support — or state revenue — is the difference between its calendar-year total revenue and its calendar-year local revenue:

\[
2002 \text{ Tuition Support} = 2002 \text{ Total Revenue} - 2002 \text{ Local Revenue}
\]

The logic of this formula seems to preclude charter school start-ups from receiving local revenue collected during the calendar year that they open. Otherwise, school corporations will receive less total revenue than has been generated by the formula, based on district enrollment data from the previous September.
While this logic appears to reflect the intent of the Indiana school funding formula, the wording in S.B. 165 that charter schools are to receive a “proportionate share of the general fund property tax levy” creates ambiguity. Property owners pay the second installment of their general fund property tax to the county after students have enrolled in charter schools. Because this tax payment occurs when the “facts on the ground” include children attending charter schools, it might be argued that the “legislative intent” is for a proportionate share of the second installment of the general fund property tax levy to go to charter schools. However, such a reading is counter to the calendar-year cycle used by Indiana in funding K-12 schools.

Auto and Commercial Vehicle Excise Taxes and Financial Institutions Tax

In the same way, the school funding formula also complicates the availability of the auto and commercial vehicle excise and financial institutions taxes for the students enrolled in charter schools. Each of these three sources of local revenue is included in the formula calculation discussed previously:

2002 Tuition Support = 2002 Total Revenue - 2002 Local Revenue

As before, the logic of this formula seems to preclude charter school start-ups from receiving local revenue collected during the calendar year that they open. Thus, it appears that charter schools would not be eligible for auto excise or financial institution tax — which total about $450 million — until the May or June following their first day of operation.

In addition, S.B. 165 does not specifically mention commercial vehicle excise taxes in Chapter 7, Section 3(c) when it outlines the sources of revenue that are to be distributed by school corporations to charter schools. Thus, it appears that charter schools may not be eligible to receive this revenue source.

Implications

As shown in Table 1, the implications of this approach to funding the day-to-day operations of charter schools differ dramatically depending upon whether they are viewed from the perspective of

(a) state government,

(b) the school corporation in which the student resides, or

(c) the child’s parent(s).
The first three columns of the table identify three different sets of financially pertinent attributes that a charter school student could possess. The rows identify 16 different combinations of these attributes. Thus, the first row of the table shows the financial impact of a student moving to a charter school from a public school, if that student lives in a high-revenue school district and is relatively inexpensive to educate. The second row of the table shows the financial impact of a relatively high-cost student moving to a charter school from a similar public school. These three attributes determine the relative financial impact of charter school enrollment on the state, the resident school corporation, and the parent(s):

(a) whether the child is moving from public education or private/home school,

(b) whether the child resides in a low-revenue or high-revenue school corporation and — if the child is moving from a private/home school — how the revenue in the child’s resident school district is set, and

(c) how expensive the child is to educate

Table 1 focuses solely on actual transfers of money. Therefore, in row one, which shows the financial impact of a relatively-inexpensive-to-educate student moving to a charter school from a high-revenue public school district, the only actual transfer of money involving the state, the resident school corporation, and the parent(s) is the revenue lost by the resident school corporation. From the perspective of the state, the entity receiving the payment simply changes from the school corporation to the charter school; the amount of the check is unchanged. The student’s parent(s) did not pay tuition previously and do not now. The resident school corporation, however, loses the entire total revenue amount generated by this student. The charter school, which is not shown here, is the recipient of this transfer of money (i.e., according to the key shown at the bottom of Table 1, the charter school would be a + +).
Table 1: Financial Impact of Charter School Enrollment, by Student Attributes

| Attributes of Charter School Student | Financial Impact on: |  |
|-------------------------------------|----------------------|  |
|                                     | State of Indiana     | Resident School Corporation | Student’s Parent(s) |
| Previous School Attended            | Per-Pupil Revenue    | Cost to Educate              |                         |
|                                     | of Resident School   | (Regular Ed. Only)           |                         |
|                                     | Corporation          |                             |                         |
| Public                              | High                 | Low                          | None                    | —                      | None                     |
| Public                              | High                 | High                         | None                    | None³                  | None                     |
| Public                              | Low                  | Low                          | None                    | None³                  | None                     |
| Public                              | Low                  | High                         | None                    | +³                     | None                     |
| Private/Home                        | High; Growing        | Low                          | —                       | —                      | +                       | +                       |
|                                     | Enrollment           |                              |                         |                         |                         |                         |
| Private/Home                        | High; Minimum-        | Low                          | None                    | —                      | —                       | +                       |
|                                     | guarantee            |                              |                         |                         |                         |                         |
| Private/Home                        | High; Generic        | Low                          | —                       | —                      | None                    | +                       |
| Private/Home                        | High; Growing        | High                         | —                       | —                      | +                       | +                       |
|                                     | Enrollment           |                              |                         |                         |                         |                         |
| Private/Home                        | High; Minimum-        | High                         | None                    | —                      | —                       | +                       |
|                                     | guarantee            |                              |                         |                         |                         |                         |
| Private/Home                        | High; Generic        | High                         | —                       | —                      | None                    | +                       |
| Private/Home                        | Low; Growing         | Low                          | —                       | —                      | +                       | +                       |
|                                     | Enrollment           |                              |                         |                         |                         |                         |
| Private/Home                        | Low; Minimum-         | Low                          | None                    | —                      | —                       | +                       |
|                                     | guarantee            |                              |                         |                         |                         |                         |
| Private/Home                        | Low; Generic         | Low                          | —                       | —                      | None                    | +                       |
| Private/Home                        | Low; Growing         | High                         | —                       | —                      | +                       | +                       |
|                                     | Enrollment           |                              |                         |                         |                         |                         |
| Private/Home                        | Low; Minimum-         | High                         | None                    | —                      | —                       | +                       |
|                                     | guarantee            |                              |                         |                         |                         |                         |

Key:
Number of plus signs (+) indicates the extent to which this set of attributes of a charter school student is likely to create a positive financial impact for that entity.
Number of negative signs (-) indicates the extent to which this set of attributes of a charter school student is likely to create a negative financial impact for that entity.

³ Assumes the corporation is able to recapture the previous cost of instruction — by employing fewer staff or operating fewer buildings — when the student transfers to a charter school.
State of Indiana

From the perspective of state government, the financial consequences of a student enrolling in a charter school are determined by

1. Whether the child previously attended a private/home school, and

2. In those cases in which the student is moving from a private/home school to a charter school, two factors are important (a) the per-pupil revenue of the resident school corporation, and (b) whether the resident school corporation will be a minimum-guarantee school corporation after the charter school students are added to its enrollment.

As discussed above, students moving from public school corporations to charter schools already generated state apportionment payments prior to the transfer. The state simply sends this amount to a different entity after the student enrolls in a charter school.

Students moving from a private/home school to a charter school are a totally different matter. Prior to enrolling in charter schools, these students cost the state little or nothing to educate because their parents paid tuition or contributed other family resources to cover this cost. Following these students’ transfer from private/home schools to charter schools, one of five situations exists:

Table 2: Financial Impact on State of Students Moving from Private/Home School to Charter School, by Resident School Corporation Attributes

<table>
<thead>
<tr>
<th>Attributes of Resident School Corporation</th>
<th>Funding Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case</td>
<td>Per-Pupil Revenue</td>
</tr>
<tr>
<td>1</td>
<td>High</td>
</tr>
<tr>
<td>2</td>
<td>High</td>
</tr>
<tr>
<td>3</td>
<td>Low</td>
</tr>
<tr>
<td>4</td>
<td>Low</td>
</tr>
<tr>
<td>5</td>
<td>All</td>
</tr>
</tbody>
</table>
1. If the resident school corporation is high revenue and if the additional charter school students generate growing enrollment funding4 for this high-revenue school corporation, then the state will face a net expenditure increase equal to the total revenue amount. In 2002, this increased expenditure could approach $7,000 per pupil.5

2. If the resident school corporation is high revenue, but the additional charter school students do not generate growing enrollment funding and they do not allow the resident school corporation to be a minimum-guarantee school corporation6 then for this high-revenue school corporation the state will face a net expenditure increase equal to the total revenue amount. In 2002, this increased expenditure could approach $6,700 per pupil.

3. If the resident school corporation is low revenue and if the additional charter school students generate growing enrollment funding for this low-revenue school corporation, then the state will face a net expenditure increase equal to the total revenue amount. In 2002, this increased expenditure could approach $5,500 per pupil.

4. If the resident school corporation is low revenue, but the additional charter school students do not generate growing enrollment funding and they do not allow the resident school corporation to be a minimum-guarantee school corporation, then for this low-revenue school corporation the state will face a net expenditure increase equal to the total revenue amount. In 2002, this increased expenditure could approach $5,200 per pupil.

5. If the resident school corporation will be a minimum-guarantee school corporation after the charter school students are added to its enrollment, then the state will not face any net expenditure increase — 2002 total revenue in a minimum-guarantee district is fixed at 2% above 2001 total revenue.

A key factor, from the state’s perspective, is that for about one-fourth of the 169 school corporations in the first four rows of Table 2 — those who are not minimum-guarantee and therefore generate additional state expenditures — these added expenditures are on-going, base expenditure increases.7 In Indiana, high-revenue school corporations that increase enrollment by the lesser of 5% or more or 250 students qualify for additional 'growing enrollment' funding from the state. Special education students in private schools receive services from their resident school corporation that are paid for through the state’s categorical special education funding formula. Therefore, the State does not incur additional special education costs when these students transfer from private schools to a charter school.

6 If other components of the Indiana school funding formula do not generate at least a 2% increase in regular education revenue for a school corporation, it becomes a minimum-guarantee corporation and receives a 2% increase in regular education revenue each year.

7 Of the 169 school corporations in 2003 that will not calculate their revenue using the minimum guarantee, 38 school corporations use their previous year’s revenue to calculate 2003 revenue.
corporations are much more likely to be urban districts (Theobald, 2001). However, the 175 minimum-guarantee districts are fairly evenly distributed by district type (i.e., urban, rural). Therefore, students residing in urban school corporations who are moving from private/home schools to charter schools are more likely to trigger larger state payments than are former private/home school students residing in suburban or rural districts.

Resident School Corporation

From the perspective of the school corporation in which the child resides, the financial consequences of this student enrolling in a charter school are determined by

1. In those cases in which the student is moving from the resident school district to a charter school, whether the per-pupil revenue lost to the charter school is greater or less than the cost savings from not educating that student. The Indiana school funding formula generates an equal per-pupil grant to all regular education students who are residents in a particular school corporation. The cost savings that a school corporation can realize when it is no longer responsible for educating individual students, though, differ substantially by grade level, academic ability, family structure, as well as by the degree to which the corporation is able to realize these savings by employing fewer staff or operating fewer buildings.

2. Whether the resident school corporation will be a growing enrollment or minimum-guarantee school corporation after the charter school students are added to its enrollment.

Six different financial scenarios exist for Indiana school corporations when one of their resident students enrolls in a charter school:

---

8 This issue also applies to special education students currently enrolled in public school corporations. Indiana provides an equal per-pupil grant to all special education students who are placed in one of three handicapping categories (students with severe disabilities, students with mild/moderate disabilities, and students who require communication or homebound services) based on a projection of the cost of the average child in these categories. The actual expense of educating individual students within a handicapping category, though, differs substantially by the nature of the disability. However, without accurate expenditure data that is disaggregated by handicapping condition, it is not possible to evaluate the financial implications for school corporations of these children moving to charter schools.
Table 3: Financial Impact on Resident School Corporation of Charter School Enrollment, by Student and Resident School Corporation Attributes

<table>
<thead>
<tr>
<th>Case</th>
<th>Attributes of Charter School Student</th>
<th>Attributes of Resident School Corporation</th>
<th>Funding Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previous School Attended</td>
<td>Cost Savings from Not Educating Former Student Compared to Per-Pupil Revenue</td>
<td>Minimum-Guarantee</td>
</tr>
<tr>
<td>1</td>
<td>Public</td>
<td>More</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>Public</td>
<td>Similar</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Public</td>
<td>Less</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Private/Home</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>Private/Home</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>6</td>
<td>Private/Home</td>
<td>N/A</td>
<td>Yes</td>
</tr>
</tbody>
</table>

1. If the student previously enrolled in the school corporation and the cost savings for the district from no longer educating this child is greater than the per-pupil revenue generated by the school funding formula, then the school corporation should be able to decrease expenditure, in the long run, more than the revenue lost to the student transfer. This situation is discussed in greater depth in the next section.

2. If the student previously enrolled in the school corporation and the cost of educating this child is similar to the per-pupil revenue generated by the school funding formula, then the school corporation should be able to decrease expenditures, in the long run, by an amount roughly equivalent to the drop in revenue.

3. If the student previously enrolled in the school corporation and the cost of educating this child is less than the per-pupil revenue generated by the school funding formula, then the school corporation will face a drop in revenue that is greater than the savings created by not educating this child. This situation, known as “low-cost creaming,” is discussed in greater depth in the next section.

4. If the student was not previously enrolled in the school corporation, his/her enrollment in a charter school will generate additional enrollment for the school corporation. If such additional charter school students generate growing enrollment funding then the average per-pupil revenue for the district will
increase because all students beyond a five percent (or 250 students) increase generate 15 months of funding. Unlike all scenarios discussed to this point, for most school corporations (see footnote 4) this revenue increase would be one-time only unless the number of resident students moving to charter schools continued to increase in future years sufficiently to generate further growing enrollment funding.

5. If the student was not previously enrolled in the school corporation, but the additional charter school students do not generate growing enrollment funding and they do not allow the resident school corporation to be a minimum-guarantee school corporation, then the school district is unaffected by the transfer of private/home school students to charter schools.

6. If the student was not previously enrolled in the school corporation, his/her enrollment in a charter school will generate additional enrollment for the school corporation. However, if the resident school corporation is a minimum-guarantee school corporation after the charter school students are added to its enrollment, then its per pupil revenue will fall — its total revenue is fixed while its enrollment increases due to charter school enrollments from private/home schools. Because its per-pupil revenue is lowered, while the number of students to be educated is unchanged, this district will be required to provide education for the same number of students but will see its revenue decreased. Unlike scenario 4, this revenue decrease would be an on-going, per-pupil revenue decrease for the school corporation. If it remained a minimum-guarantee school corporation, the higher enrollment figure generated by the transfer of private/home school students to charter schools will continue to divide a relatively fixed total revenue amount into smaller per-pupil amounts. This situation is discussed in greater depth in the next section.

With regard to the financial impact on resident school corporations of charter school enrollment, therefore, those responsible for implementing S.B. 165 face two great challenges:

1. How to address fairly the potential for “creaming” of low-cost students (case 3); and

2. How to mitigate fairly the potential that minimum-guarantee school corporations will lose revenue due to the actions of students who had not previously attended the district’s schools (case 6).

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9 This paper will not address case 1 — in which school corporations have financial incentives to “dump” high cost students on charter schools — because the voluntary nature of moving to charter schools would seem to preclude this from being an important policy issue. If evidence emerges that Indiana school corporations are pushing high-cost students towards charter schools then this issue will have to be revisited.
The Indiana school funding formula generates an equal per-pupil grant to all regular education students who are residents in a particular school corporation. The costs of educating individual students within a school corporation, though, differ substantially by grade level, academic ability, and family structure. For example, a number of states — not including Indiana — provide additional funding to high school students because they require a greater range of specialized courses than do elementary students. Indiana school corporations, on the other hand, cross-subsidize the high cost of operating high schools by reallocating part of the revenue provided to educate lower-cost students. Over the course of a student’s 13 years in public school corporations, these subsidies average out because elementary students who produce surpluses under the current school funding formula eventually become high school students who require these surpluses.

Transfers of students from a public school corporation to charter elementary schools — without a parallel transfer of students from the public school corporation to charter high schools — could clearly upset this balance. The unintended consequence would be that the school corporation would lose access to the financial surplus that currently pays for academic programs that are not self-supporting (e.g., high schools, small-enrollment courses).

Therefore, from the perspective of the school corporation in which the child lives, students transferring from a public school corporation to a charter school could either provide a financial benefit or penalty to the school corporation. If the student is relatively high-cost, the amount of state aid lost to the charter school will be less than what the corporation currently spends to educate the child. Thus, the potential exists for the school district to recapture this cost when the student transfers to a charter school by employing fewer personnel or — if the students leaving the district are concentrated geographically and by grade level — by operating fewer schools. When such operating expenditure savings are available, school corporations could benefit financially from the enrollment of a high-cost child in a charter school. If the student is relatively low-cost — or if the charter school students are not distributed geographically or by grade level in such a way that the school district can recapture the expenditures previously made to educate a high-cost child — the amount of state aid lost to the charter school will be more than what the
corporation currently spends to educate the child. Thus, the school corporation will be penalized financially when this student transfers to a charter school because the cost savings available to the district are less than the revenue that will go with the student.

To the extent that the latter outcome occurs, Indiana school corporations will be enrolling higher percentages of students whose per-pupil cost, under the current school funding formula, exceeds the revenue provided. Therefore, these corporations will either have to seek additional sources of revenue or decrease their per-pupil expenditures. As Arsen, Plank, and Sykes summarize this situation in Michigan, “As these schools continue to lose low-cost students to charter schools and other competitors, they are truly required to do more with less” (p. 76).

**Incentives to Provide Particular Instructional Programs**

While financial incentives clearly play a role in the types of programs provided in charter schools, the experience of other states suggests that parents, teachers, and community groups do not form charter schools to maximize revenue. For example, even though they are more expensive to educate, a disproportionate number of students qualified for federal free-lunch programs are served by charter schools (Berman et al., 1999).

The growing influence, though, of a fourth party in the operations of charter schools — for-profit management companies — suggests that charter school operators are likely to be responsive to the financial incentives provided by Indiana’s charter school legislation. Management fees are driven by the difference between revenues generated by a charter school and expenditures on the school, thereby encouraging for-profit management companies to maximize the former and minimize the latter.

From the perspective of the charter school in which the child enrolls, the financial consequences of recruiting a student are determined by

1. The per-pupil revenue of the resident school corporation and
2. The cost of the student’s education.

Because charter school operators receive the per-pupil revenue of the resident school corporation, S.B. 165 creates incentives for charter school operators to recruit students from high-revenue school corporations. Although per-pupil revenue amounts in Indiana school corporations do not vary to the extent that they do in many other states (Theobald,
2001), the fiscal impact statement for S.B. 165 indicates that a regular education student transferring from a district at the 95th percentile in per pupil revenue to a charter school generates nearly $1,500 more revenue for a charter school than would a student transferring from a district at the 5th percentile in per pupil revenue. In addition, high-revenue districts in Indiana are more likely to be urban school districts.

The primary financial incentive in S.B. 165, though, is to recruit students who are less expensive to educate. Thus, charter school sponsors need to consider carefully whether a charter school proposal they receive will unnecessarily divert to the charter school the revenue needed to educate those high-cost students that continue to be educated by Indiana school corporations. Two primary challenges exist to creating such a level playing field:

1. The higher costs of educating high school students and
2. The higher costs of educating special education students.

High School

Charter school legislation in Michigan has led to the establishment of charter schools that are predominately elementary schools. Arsen, Plank, and Sykes (1999), in their analysis of the Michigan legislation, attribute this finding to cost considerations — charter high schools are more expensive to operate, yet all students from a single district generate the same per pupil grant. As a result, “In charter schools operating only at the elementary level, the actual cost of providing education is significantly less than the per pupil grant provided by the state. This frees resources for other uses, including profit” (p. 76).

As Nelson, Muir, and Drown (2000) conclude, “states that do not use grade level weights10 probably overfund charter elementary schools and underfund charter high schools” (p. 38). Addressing this issue may require a rewriting of the Indiana school funding formula to include a weight to reflect the higher costs of education at the high school level. Then charter schools and school corporations could better match funding to the costs of individual students. In the interim, sponsors of charter schools should be cognizant of cost differences by grade level when approving charters and ensure that

10 Indiana does not use grade level weights.
neither school corporations nor charter schools are unfairly burdened with the higher cost of educating high school students.

In the interim, the lottery-based, open admission process of the Indiana charter school law should help mitigate low-cost “creaming” within grade levels. To address this issue across grade levels, charter school sponsors should be cognizant of this issue and attempt to balance the grade distribution of charter schools to the grade distribution of local school corporations. The work of Arsen, Plank, and Sykes suggests that to do so, charter school sponsors may need to give preference in granting charters to those proposals that will serve higher-cost, secondary students.

Special Education

Special education funding, in general, is in turmoil. Underlying this national problem is the reality that school districts must divert substantial resources from regular education operating funds in order to pay for underfunded special education mandates (Parrish & Wolman, 1998). While the federal share of rapidly rising special education costs has remained constant at 7% over the last 16 years, the local share of special education costs nationally has risen from 37% in 1982-83 to 45% in 1998-99 (Fine, 2001, p. 12).

While special education funding in Indiana follows the student to charter schools, the small size of most charter schools will make it difficult for them to follow the current practice of diverting substantial resources from regular education operating funds in order to pay for special education services. The impact on the education offerings provided to the other students of such a reallocation is likely to make this option unsustainable. Thus, while small scale provision of services to mild or moderately handicapped students may be financially viable, the high cost of educating severely disabled children suggests that charter schools in Indiana should either move quickly to establish cooperative service delivery models among themselves, or more likely, contribute funds to existing cooperatives. Such a proactive approach could help Indiana avoid concerns expressed in other states that charter schools have not been responsive to special education students and their parents (Good & Braden, 2000; Prince, 1999; Ramanathan & Zollers, 1999; Zollers & Ramanathan, 1998).
**Negative impact on minimum-guarantee districts**

Among the numerous strengths of the Indiana school funding formula is that school corporations whose enrollments are stagnant or declining are guaranteed to receive a minimum percentage increase over and above the total regular education dollar amount they received the year before. In 2002, they get at least the amount they received in 2001, plus 2%. The goal is to allow these corporations to cover their increasing fixed costs (e.g., utilities) and, when possible, decrease personnel costs gradually through voluntary attrition and retirements.

S.B. 165 creates a perverse situation: the minimum-guarantee safety net disappears when students residing in a minimum-guarantee district, and who do not attend public school in the district, decide to enroll in charter schools. Even though these students will “never darken the door” of the district’s schools, they will — nonetheless — take a significant amount of revenue away from the district when they enroll in charter schools.

A current example may help sharpen this issue. Earlier this month, a private school in South Bend requested charter school status from the South Bend Community School Corporation (SBCSC). Because SBCSC is not a minimum-guarantee school corporation, the State of Indiana would have paid the entire $704,075 charter school cost, assuming that each of the projected 135 students in the charter school resided within SBCSC boundaries.  

The situation would have been quite different if the students in this charter school resided in the Indianapolis Public School (IPS) boundaries. Table 4 shows data for this case. IPS is a minimum-guarantee district that enrolled 44,578.5 students and received regular education revenue of slightly more than $265 million in 2001. The district receives an average of $5,948 per pupil to educate these 44,500-plus students. IPS projects that the number of students attending schools in the district will fall to 44,032

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11 In fact, if 135 private/home school students who are resident in SBCSC transferred to a charter school, the district would become a growing enrollment district and would receive an additional $540,000 beyond the amount that would be distributed to the charter school.

12 Regular education revenue includes all general fund revenue except special education, vocational education, and academic honors diploma funding, which would not be distributed on a per-pupil basis to charter schools.
and the district will remain a minimum-guarantee district in 2002. Thus, its total funding will increase by slightly more than 2% in 2002 to $270.6 million.

If the 135-student charter school had opened in IPS this month, the district’s 2002 ADM would fall to only 44,167 to reflect the 135 students residing in the district who are enrolled in the charter school. In the absence of a charter school, the school funding formula would have allowed IPS, as well as all other declining enrollment school corporations, to add 0.8 to their enrollment for each student lost from the previous year and 0.6 for each student lost in the year before that. The goal of this “reghoster” is to permit declining enrollment school corporations to decrease their spending gradually (Theobald & Taylor, 2001). Thus, although IPS must distribute funding for 135 students to the charter school, it will receive additional funding for only one-fifth of these students — or 27 students. The remainder must come from IPS’s existing resources.

Table 4: Hypothetical Impact of S.B. 165 on Indianapolis Public Schools

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular Education Revenue</th>
<th>Corporation Enrollment</th>
<th>Revenue Distributed to Charter School</th>
<th>Students to be Educated by School Corporation</th>
<th>Regular Education Revenue Available to Educate District’s Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$265,155,693</td>
<td>44,578.5</td>
<td>-0-</td>
<td>44,578.5</td>
<td>$265,155,693</td>
</tr>
<tr>
<td>2002 w/135 students in private school</td>
<td>$270,576,316</td>
<td>44,032</td>
<td>-0-</td>
<td>44,032</td>
<td>$270,576,316</td>
</tr>
<tr>
<td>2002 w/135 students in charter school</td>
<td>$270,601,819</td>
<td>44,167</td>
<td>$827,116</td>
<td>44,032</td>
<td>$269,774,702</td>
</tr>
<tr>
<td>Impact of charters</td>
<td>+$25,503</td>
<td>+135</td>
<td>+$827,116</td>
<td>-0-</td>
<td>-$801,613</td>
</tr>
</tbody>
</table>
The impact is shown in the last two columns of Table 4. IPS projects that it will have 44,032 students to educate in 2002. However, if in 2002, a private school with 135 students who reside in the IPS boundaries is converted to a charter school, IPS will receive only $25,503 additional revenue. However, IPS (through a transfer of property tax receipts) and the State (by diverting state support) will send $827,116 to the charter school to educate these 135 students (based on IPS’s per pupil revenue of $6,126.79). IPS will thereby receive $801,613 less in 2002 than it would have received if the charter school had not opened. Nothing within the purview of the school corporation has changed; these students attended a private school in 2000-01 and attend a charter school in 2001-02. Yet, the school corporation loses $800,000. This scenario demonstrates a clearly unintended consequence of S.B. 165: If a home schooled or private school student transfers to a charter school, it should not trigger a decrease in resident school corporation revenue.

*Student’s Parent(s)*

From the perspective of the student’s parent(s), the financial consequences of enrolling their child in a charter school are determined by whether the child previously attended a private/home school that required the parent(s) to pay tuition. Students moving from an Indiana public school to a charter school create no financial impact on the student’s parent(s). The funding that had previously paid for their child’s education in a school corporation now follows the student to the charter school. Students moving from a private/home school to a charter school, though, save the parents the cost of the tuition previously paid or the parental resources used.

**Buildings and Other Large-Scale Capital**

*Indiana Plan*

Indiana provides very limited state support through two sources for school construction and other large-scale capital projects for schools. One source of state funding for capital purposes is an annual flat grant of $40 per pupil in average daily attendance (ADA) in grades 1-12 to all school corporations. The second source of capital funds from the state is property tax replacement credits on debt incurred prior to 1984. Charter schools do not appear to be eligible for either of these sources of capital revenue.
Because there does not appear to be any reporting of attendance in Chapter 7, Section 3(a)(1) of S.B. 165, charter schools are likely to receive only those revenues distributed on the basis of average daily membership (ADM). Given this standard, it seems unlikely that the $40 per ADA in grades 1-12 will follow the students to the charter schools.

In addition, it would not seem consistent with the law’s intent to transfer to charter schools the state contribution to a school corporation’s debt service fund through property tax replacement credits on debt incurred prior to 1984. Chapter 7, Section 3(c) specifically directs that “a proportionate share of the general fund property tax levy” will follow the student to the charter school. The failure to include the debt service property tax levy in this legislation suggests that property tax replacement credits do not follow students to charter schools.

In terms of local funding for school construction and other large-scale capital projects for schools, S.B. 165, Chapter 7, Section 2(3) specifically excludes charter school students from being counted for local capital projects funding. However, “with the approval of a majority of the members of the governing body, a school corporation may distribute a proportionate share of the school corporation’s capital project fund to a charter school” (Chapter 7, Section 6).

The Indiana Charter Schools Network and Resource Center will attempt to assist charter school operators in meeting their capital needs by linking them to national and state-level organizations that might be able to help them in locating and securing appropriate facilities. For the longer-term, the Center is establishing a revolving loan fund to help charter schools gain access to capital for facilities with the goal of having funds available for the 2002-03 school year.

As it has in the past on the operating side, the federal government’s role in providing capital funding could increase substantially in the next few years. Currently, the federal government provides only $25 million nationally for facilities through Charter School Facility Financing Demonstration Grants. The 2002 Elementary and Secondary Education Act, though, proposes creating a $175 million Charter Schools Homestead Fund to help offset charters’ facilities costs. The new initiative would provide grants to
leverage funds to construct, lease, purchase, or renovate academic facilities for use by charter schools.

*Implications*

Nationally, charter school operators list funding for buildings and other large-scale capital needs as their third biggest problem — after start-up funding and operations funding (Berman et al., 2000). Only eight of the 35 charter school states provide direct funding for capital expenses through grants or per-pupil allocations: Arizona, Colorado, the District of Columbia, Florida, Massachusetts, Minnesota, New York, and Utah (Sandham, 2001, p. 23). Colorado became the most recent state to address the capital needs of charter schools when its 2001 General Assembly enacted a $5.3 million charter facilities program that gives charter schools $322 per pupil every year to help offset facilities expenses. Beginning in November 2002, Colorado will also require that charter schools be allowed to participate in local bond issues for school construction.

As with the lack of start-up costs, the lack of facilities funding in most states puts parent-run and grassroots charter school operators at a disadvantage compared to for-profit management companies in the chartering process. While Indiana school corporations have access to debt service and capital project levies to pay for buildings and other large-scale capital needs, the state’s charter schools either will have to raise funds from private sources or pay for facilities out of operating funds. As Nelson, Muir, and Drown (2000) point out, for charter schools “the capital funding issue is not just a matter of bricks and mortar — it has implications for the quality of education” (p. 69). Clearly, operating funds that are allocated to facilities are not available to hire and pay staff, purchase materials, and provide services.

Because Indiana charter school organizers must be eligible for not-for-profit status under IRS regulations, they may be able to obtain tax-exempt financing to purchase or build facilities. However, the prices charged by lenders and property owners are tied to the risk of not being paid and therefore are likely to be higher than those available to Indiana school corporations. The role of charter school sponsors in the case of default on such financing is unclear.
Equipment and Textbooks

Indiana Plan

In Indiana, parents are expected to pay for textbooks and related materials. The State, though, reimburses school corporations, through the School Textbook Reimbursement Contingency Fund, for textbook and related school fees for children living in poverty. For these students, school corporations receive six annual payments of 20 percent of the cost of the textbooks as listed on the adoption list. In addition, for children living in poverty, school corporations receive 100 percent of the cost of the workbooks that accompany adopted textbooks, and 100 percent of consumable textbooks that are state adopted. The costs of textbooks used in gifted and talented education and in special education are reimbursed based on amortization of the book over the years it is to be used. These reimbursements will also be available to charter schools.

Implications

Charter schools will be in the same position as Indiana school corporations with regard to textbooks and other materials. Each year, parents and guardians pay more than $50 million in textbook rental fees in Indiana. Charter school operators will be responsible for collecting these fees from the parents and guardians of children who do not meet federal standards for poverty. The School Textbook Reimbursement Contingency Fund should provide these fees for poor children. In actual practice, though, appropriations for the School Textbook Reimbursement Contingency Fund may not be sufficient to pay all of the claims made against it. In this case, the charter schools — just like local school corporations — must pay the balance after the state appropriation has been exhausted.

Transportation

Indiana Plan

While charter school proposals must address transportation, S.B. 165 mentions pupil transportation only once: “Services that a school corporation provides to a charter school, including transportation, may be provided at not more than one hundred three percent (103%) of the actual cost of the services” (Chapter 7, Section 4(a)). Thus, while the law does not specify to what extent charter schools or school corporations must
provide transportation to charter school students, if the school corporation does transport charter school students, the law places a ceiling on what a school corporation may charge.

Chapter 7, Section 3(b)(1) states that charter schools should receive “other state funding for any purpose for students in the charter school.” This language would appear to allow charter schools to operate their own transportation programs and receive state support through the transportation formula. If this is the case, the formula may need to be revised to redefine terms such as “linear density ratio” in light of a charter school that might transport students across several school corporations.

Another technical issue raised by charter school transportation is how the State and school corporations will address the one-year lag in Indiana’s funding formula for transportation. Regular school transportation reimbursement is computed on the basis of factors existing in each school corporation for the school year ending in the preceding calendar year. Thus, transportation revenues in school corporations run one year in arrears. Whether this one-year delay in paying for transportation services would also extend to charter schools appears to be subject to negotiation.

**Implications**

The decision whether to transport charter school students appears to reside with local school boards. If the local corporation agrees to transport students, then it is allowed to charge the charter school operators an amount that covers its costs in doing so. However, charter schools receive no transportation funds. Therefore, any such agreement would require the charter school to reallocate operating funds to purchase transportation. In the case of special education students, the amount that would need to be reallocated from other uses would be particularly high.

If this system were to lead to an unavailability of transportation for charter school students — either because the school board chose not to offer transportation or because the charter school declined to pay for it — the result would be to exclude students who could not provide their own transportation. This could limit choice for students whose economic or geographic situation limits their ability to obtain transportation to the charter school as well as special needs students whose transportation costs are very high.
Monitoring, Oversight, and Technical Support

Indiana Plan

Monitoring, oversight, and technical support for a K-12 public school are traditionally the province of the school corporation. S.B. 165 breaks the link between K-12 charter schools and the bureaucracy that has provided these services. Chapter 8, Section 3 clearly allocates the first two tasks to the sponsor of the charter school: “For each charter school established under this article, the charter school and the organizer are accountable to the sponsor for ensuring compliance with: (1) applicable federal and state laws; (2) the charter; and (3) the Constitution of the State of Indiana.”

For these services, the reimbursement to sponsors differs by type of sponsor. Local school corporations are allowed to charge charter schools “not more than one hundred three percent (103%) of the actual cost of the services” (Chapter 7, Section 4(a)). State universities can charge “an administrative fee equal to not more than three percent (3%) of the total amount the governing body distributes” (Chapter 7, Section 4(b)). In this latter case, the governing body is the school corporation in which the student resides. However, as explained earlier in this paper, the school corporation in which the student resides does not distribute state funds to charter schools; charter schools receive “tuition support and other state funding” directly from the state. Therefore, “the total amount the governing body distributes” is likely to be interpreted as including only local revenues. In the case of many southern Indiana school corporations, local revenues would account for 20% or less of the total amount. Clearly, such an interpretation would be devastating to university sponsors.

S.B. 165 is silent on how charter schools should garner the numerous technical support resources (i.e., legal, financial, curricular) that school corporations currently provide. The Indiana Charter Schools Network and Resource Center appears poised to act as a broker to charter schools in locating such assistance.

Implications

If the assertion made above were correct — that university sponsors will receive a share of local revenue only — then it would be nearly impossible for a university to sponsor a charter school in a low-wealth school corporation. A sponsor of a 100-student charter school in Brown County could charge a maximum administrative fee of $5,308 in
2002 to cover legal, programmatic, fiscal, and reporting responsibilities. Even in the case of a high-wealth school corporation such as Pike Township, a university sponsor of a 100-student charter school could charge a maximum administrative fee of $11,578 in 2002 to cover these costs.

S.B. 165 states that sponsors “shall oversee a charter school’s compliance with: (1) the charter; and (2) all applicable laws” (Chapter 9, Section 3). Thus, the legislation mandates that charter school operators annually submit to the sponsor attendance records, student performance records, financial information, and any other information necessary to comply with state and federal government requirements or the charter. The costs charter school sponsors will incur in meeting these requirements are likely to require university sponsors to seek additional revenue sources to subsidize their involvement.

In addition, a sponsor has only 60 days to evaluate a charter school proposal and notify the potential organizer whether the proposal is accepted or rejected. The sponsor receives no reimbursement for the cost of evaluating an unsuccessful proposal or defending this decision in the appeals process. To the extent that these proceedings involve legal counsel, the cost of rejecting charter school proposals could become prohibitive.
References


