



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #744

### **School District Charter School Development Loans (DPI -- Categorical Aids)**

[LFB 2001-03 Budget Summary: Page 539, #10]

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#### **CURRENT LAW**

Under current law, no GPR funding is specifically provided for school district charter schools. Federal implementation grants are currently available; monies from this source were allocated by DPI to four areas of charter school development: (a) implementation grants for school districts or other chartering authorities that are ready to open a school; (b) renewal grants to existing charter schools to support a second year of operation; (c) planning grants to support activities for schools that will open in the next year; and (d) dissemination grants for charter schools that have been in operation three or more years to share their best practices with school districts planning or creating new charter schools. Approximately \$4.4 million is available in federal monies in 2000-01.

#### **GOVERNOR**

Provide \$1,000,000 GPR in 2002-03 for charter school development loans to school districts in a newly-created continuing appropriation.

Require the State Superintendent to allocate \$1,000,000 FED in 2002-03 for these loans.

Create a PR continuing appropriation for charter school development loan repayments that would receive repayments and loan them out again.

Authorize the loans to be used for capital expenditures, staff or curriculum development, or other costs of starting a charter school. Specify that the term of a loan under this program would be five years and require the State Superintendent to specify the annual repayment amount.

## DISCUSSION POINTS

1. Charter schools were authorized under 1993 Act 16 (the 1993-95 state budget), and are exempt from most statutory requirements regarding public K-12 education, except federal laws governing education and civil rights policies and from school board policies unless negotiated in the district contract. A charter school cannot discriminate on the basis of a person's sex, race, religion, national origin, ancestry, pregnancy, marital or parental status, sexual orientation or physical, mental, emotional, or learning disability. The charter contract must describe how the school will achieve a racial and ethnic balance among its pupils that reflects the school district population. Charter schools are accountable in three major areas: student performance, fiscal management, and adherence to their contracts and the charter school law. Failure in any one of these areas may lead to revocation of the charter. Governance and administrative structure are at the discretion of the charter school. Under current law, all school districts, the city of Milwaukee, Milwaukee Area Technical College, and UW-Milwaukee are authorized to sponsor charter schools. In 2000-01, there are 92 charter schools operating in the state.

2. Charter schools established by school boards do not receive state funding directly. State aid and revenue limit authority are calculated for school districts based on the total number of students enrolled in the district's schools and related costs, including charter schools. Districts decide for themselves how to apportion this aid and local property tax revenues among all district schools, including charter schools, and districts are not required to provide charter schools with a specific amount of funding.

3. In addition to funding received from their school districts, charter schools can apply to receive funding from the federal charter school grant program. In 1999, a \$13.2 million federal implementation grant, for October, 1999, through September, 2002, was awarded to DPI on behalf of the state. Approximately \$4.2 million is available in each of the three years to schools after deducting administrative costs of approximately \$200,000 in each year. DPI will be eligible to apply for another three-year grant in 2002. Each state educational agency applies for its own grant under the program, then uses those funds to award "subgrants" to individual charter school leaders. When a state does not receive such a grant, individual charter schools from that state may apply directly to the U.S. Department of Education.

4. Under federal law, the state is allowed to determine the amount of money to provide, how to conduct the competition, and whether to establish its own priorities in the distribution of these implementation grants. Not more than five percent of the funds may be used by DPI for administrative costs, and not more than 10% of the grant funds may be used to support dissemination activities such as distributing information about the school. Separate grants specifically for dissemination activities are also available from the U.S. Department of Education. The grants may be used by charter schools for (a) planning and design of the educational program; (b) professional development; (c) informing the community about the school; (d) acquiring or developing necessary equipment and educational materials and supplies; and (e) other initial operational costs that cannot be met from state or local sources.

5. Eligible applicants for the grants are local educational agencies and private schools meeting the following requirements: (a) teachers must be licensed by DPI; (b) the charter school must participate in the Wisconsin student assessment system and in the annual school performance report produced by DPI; and (c) students must be counted for membership by the local school district. DPI awards \$10,000 planning grants prior to the opening of the charter school and up to \$100,000 per year for two years in implementation or start-up funds once the charter school is open and serving students.

6. Additionally, under federal law, DPI may reserve up to 10% of the grant amount for the establishment of a revolving loan fund. In order to allocate funding for the revolving loan fund in state fiscal year 2002-03 from the current three-year federal grant cycle, DPI would need to allocate the funding before the end of the federal 2002 fiscal year, in October, 2002. Federal law specifies that such a revolving loan fund may be used to make loans to eligible applicants that have received grants under this program, under such terms as may be determined by DPI, for the initial operation of the charter school grant program until the school begins receiving ongoing operational support from state or local financing sources.

7. One question relating to this proposal is the amount of federal funding available for the loans. Based on information from staff at DPI, the amount available for a revolving loan fund must be calculated yearly; although the Department received a three-year grant initially, DPI must reapply for each grant each year, providing the Department of Education with certain updated performance and budget records. Since the total grant amount for federal fiscal year 2002 is expected to be approximately \$4.4 million, the maximum amount of funding that DPI would be allowed to allocate for a loan fund is approximately \$440,000.

8. The Governor's proposal would require DPI to allocate \$1.0 million FED in 2002-03 for a revolving loan fund for charter schools. According to DPI, the only federal grant authorized for such use is the above described federal charter school implementation grant. Although federal funding from two federal fiscal years could be combined to generate an estimated \$800,000 to \$900,000 FED in 2002-03, it may be desirable to reduce the required allocation to \$440,000 FED in 2002-03 in order to conform with the annual federal allocation.

9. Alternatively, the Committee could specify that DPI allocate 10% of the federal charter school implementation grant for a revolving loan fund, rather than a specific amount. While DPI expects to receive the full remainder of the grant, DPI will not receive official notice of the award to the state until the summer of 2001. Given the uncertain status of the monies at this point in time, the Committee could require the Department to allocate up to 10% of any federal charter school implementation grant monies received to a revolving loan fund, rather than specifying a dollar amount.

10. Proponents of the proposal argue that the establishment of a revolving loan fund would provide a continuing, sustainable source of funds to charter schools. The fund would potentially provide charter schools with a greater degree of financial independence from their sponsoring school districts. It would also establish an alternative to federal grant money, the receipt of which is not guaranteed from year to year. Charter school funding sources are somewhat limited at this time, especially for large capital expenditures such as facilities costs.

The revolving loan would give schools an additional financing option if faced with large capital outlays necessary to their continued operation.

11. On the other hand, one could argue that it would be more desirable to allow DPI to continue to distribute the federal implementation grants as grants, rather than as repayable loans. According to DPI, the feasibility of a five-year loan repayment schedule for the state's charter schools is unknown at this time. Additionally, to date DPI has not rolled a revolving loan funding amount into their grant application, because there has not been a perceived need for it and the amount of funding available would be small. Although the loans could provide some charter schools with an alternative to financing from their school district sponsors, the size and number of the loans would be somewhat limited.

12. The GPR portion of the revolving loan fund would be created as a categorical aid and would be included in the calculation of the state's goal of funding two-thirds of partial school revenues. If GPR funding would be modified for the program, funding for equalization aids would need to be adjusted by a one-third offset in order to maintain state two-thirds funding of K-12 partial school revenues.

#### ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to provide \$1,000,000 GPR and require DPI to allocate \$1,000,000 FED in 2002-03 for a revolving loan fund for charter schools. Delete \$333,300 GPR in 2002-03 in general school aids to adjust two-thirds funding.

<u>Alternative 1</u>	<u>GPR</u>
<b>2001-03 FUNDING</b> (Change to Base) [Change to Bill]	\$666,700 \$0]

2. Modify the Governor's recommendation to require DPI to allocate 10% of the federal implementation grant received in 2002-03 for a revolving loan fund for charter schools, rather than allocate \$1,000,000 FED.

3. Modify the Governor's recommendation to require DPI to allocate \$440,000 FED in 2002-03 for a revolving loan fund for charter schools, rather than allocate \$1,000,000 FED.

4. Take no action. To maintain two-thirds funding, general aids would increase by \$333,300 in 2002-03 compared to the bill.

<u>Alternative 4</u>	<u>GPR</u>
<b>2001-03 FUNDING</b> (Change to Base) [Change to Bill]	\$0 - \$666,700]

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