



NATIONAL
CHARTER SCHOOL
RESOURCE CENTER

Charter School Leaders Coalition

September Monthly Meeting

September 16, 2020

Virtual | Zoom

charterschoolcenter.ed.gov

About the NCSRC

The National Charter School Resource Center (NCSRC) provides technical assistance to federal grantees and resources supporting charter sector stakeholders. NCSRC is funded by the U.S. Department of Education (ED) and managed by Manhattan Strategy Group (MSG) in partnership with WestEd.



Meeting Overview and Objectives

1. NCSRC's Indicators of Distress

- Share the findings from the NCSRC's soon-to-be-released findings on the indicators of distress in charter schools

2. Charter School Growth Fund

- Share information related to CSGF's investment strategies and approach to risk management

On the Webinar Today



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“The Death Spiral”

Identifying Early Indicators of Distress in Charter Schools

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Today's Big Question



How can organizations that support charter schools detect early signs of schools in distress and why is that important?

Session Objectives

Understand

Understand the potential role of an early warning system (EWS) approach to identify schools in distress *early in the school failure trajectory*

Incorporate

Incorporate indicators of distress in your work with schools



Agenda



Why indicators of distress help improve the quality of the education sector?



What are indicators of distress?



Why should lenders be aware of indicators of distress?



Why do indicators of distress help improve the quality of the education sector?

Charter School Lending Concerns



Lenders are interested in investing in high-quality charter schools and must make decisions on which schools will be, or are, high-quality schools



Lenders need to be able to identify schools experiencing distress long before a state accountability grade designates a school as “failing”



Academic metrics are a lagging indicator of charter health and may not be available for the 2019 – 2020 school year

Early Warning Systems and Death Spiral

Early Warning Systems:

- Review past events in broad context to identify potential characteristics of distress
- Review past events in one's own context against characteristics
- Apply characteristics to current events in one's own context to predict potential future events

Death Spiral:

- Identify organizational decline
- Define the stages of decline to determine when and how intervention(s) needs to occur

Used together: Indicators can help identify schools in distress *and* determine type of intervention(s) necessary *prior to school failure and negative impact on students.*

Guiding Question



What types of indicators come to mind when thinking of schools in distress?



What are indicators of distress?

Indicators of Distress

Data signaling that a school's performance is declining in a number of areas.



Leadership

Governing Board

Operations

Finance

Talent

Culture

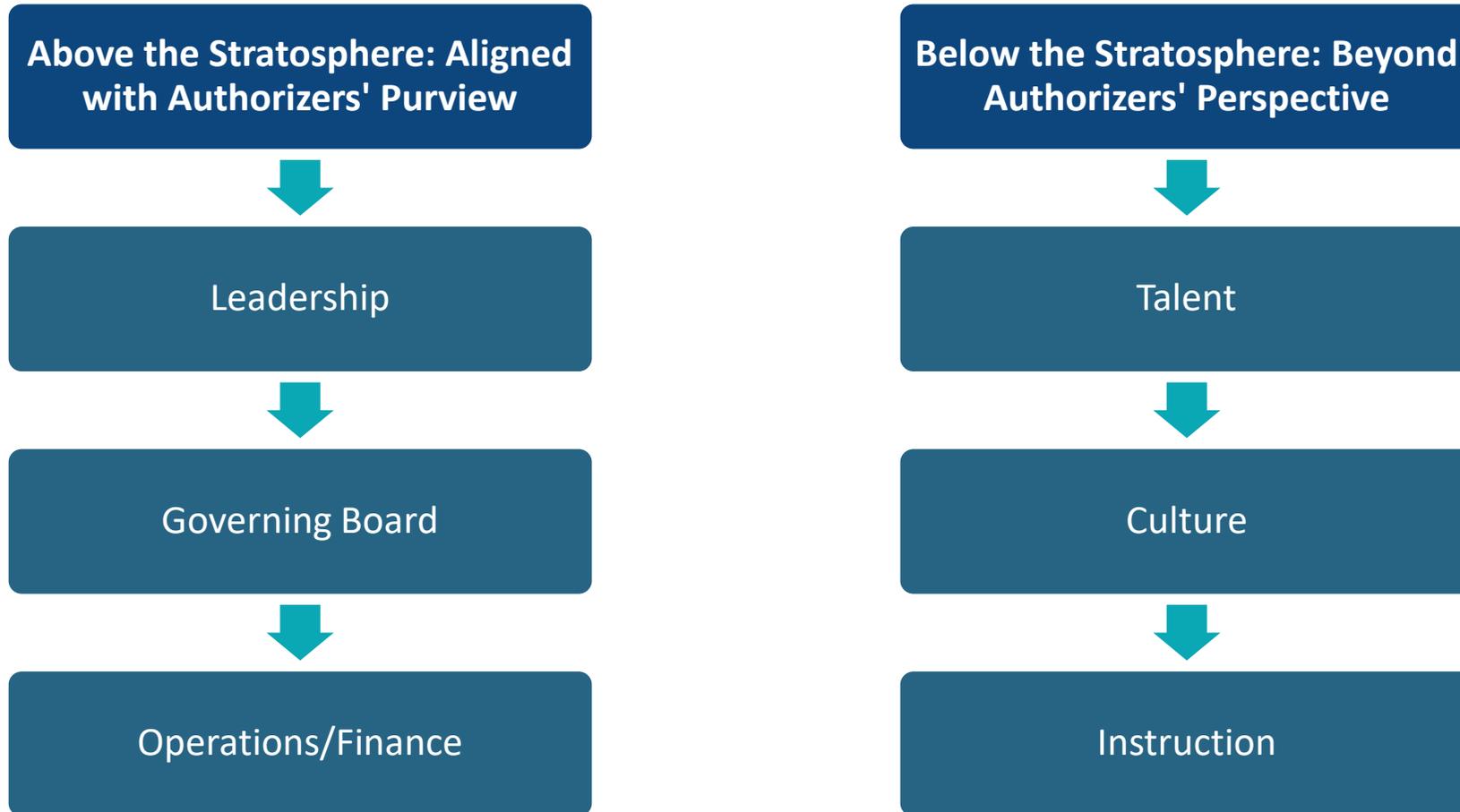
Instruction



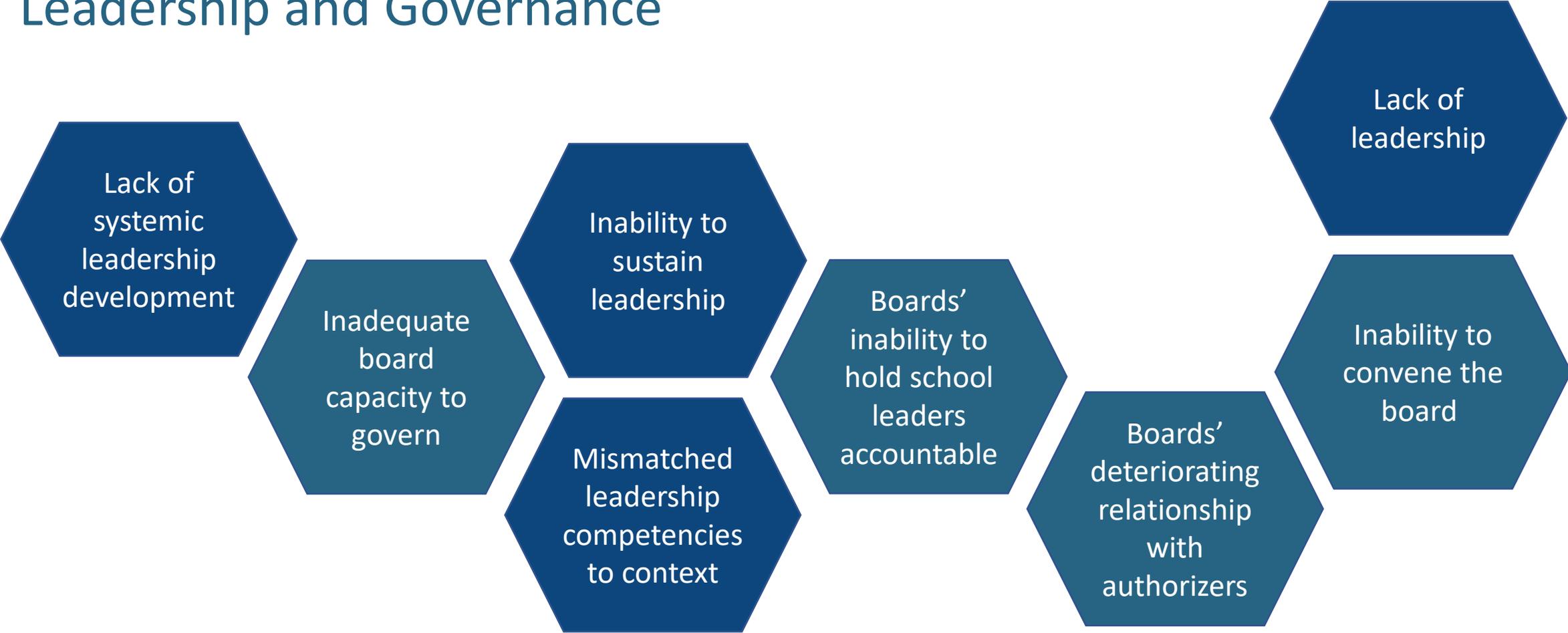
Finding: Authorizers tend to focus on indicators at the upper layer of the stratosphere of a school's functions.

Authorizers identify indicators of distress related to school leadership, school governing boards, and operational/financial elements, which may reflect additional areas of concern in areas of talent, culture, and instruction.

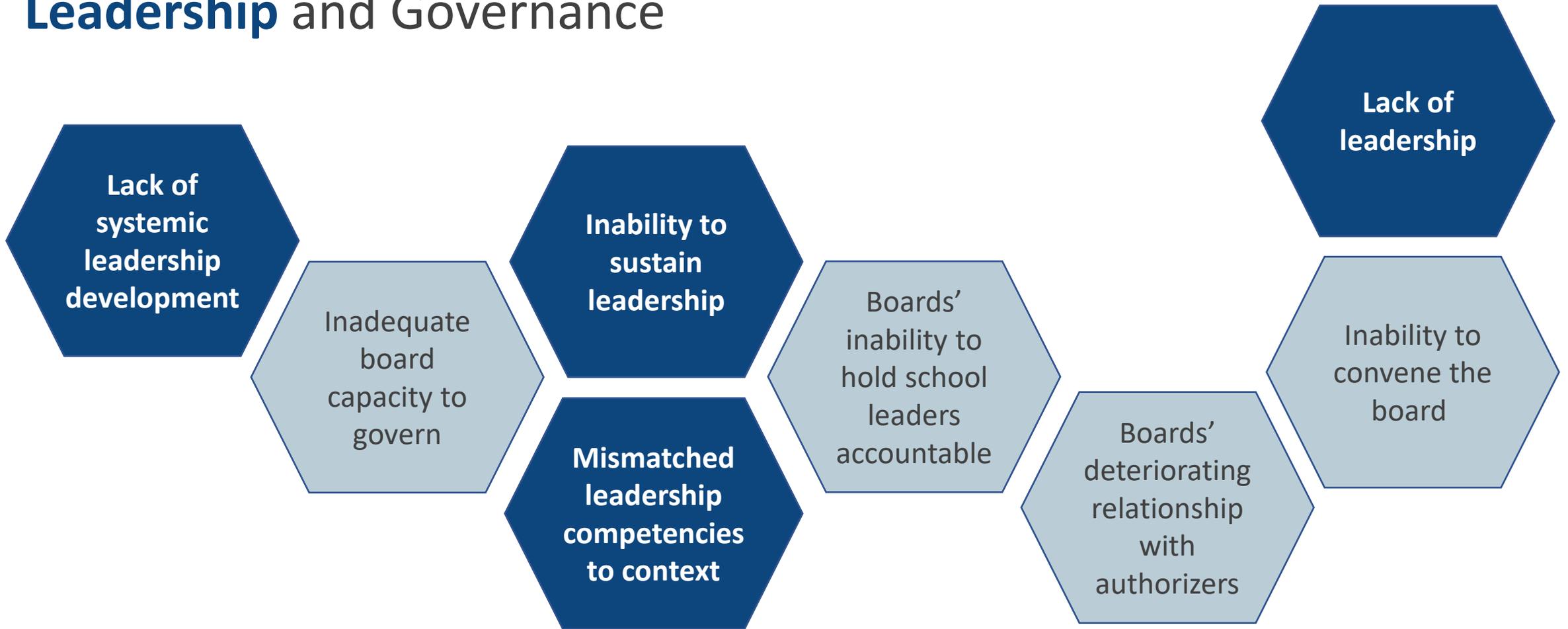
Stratosphere



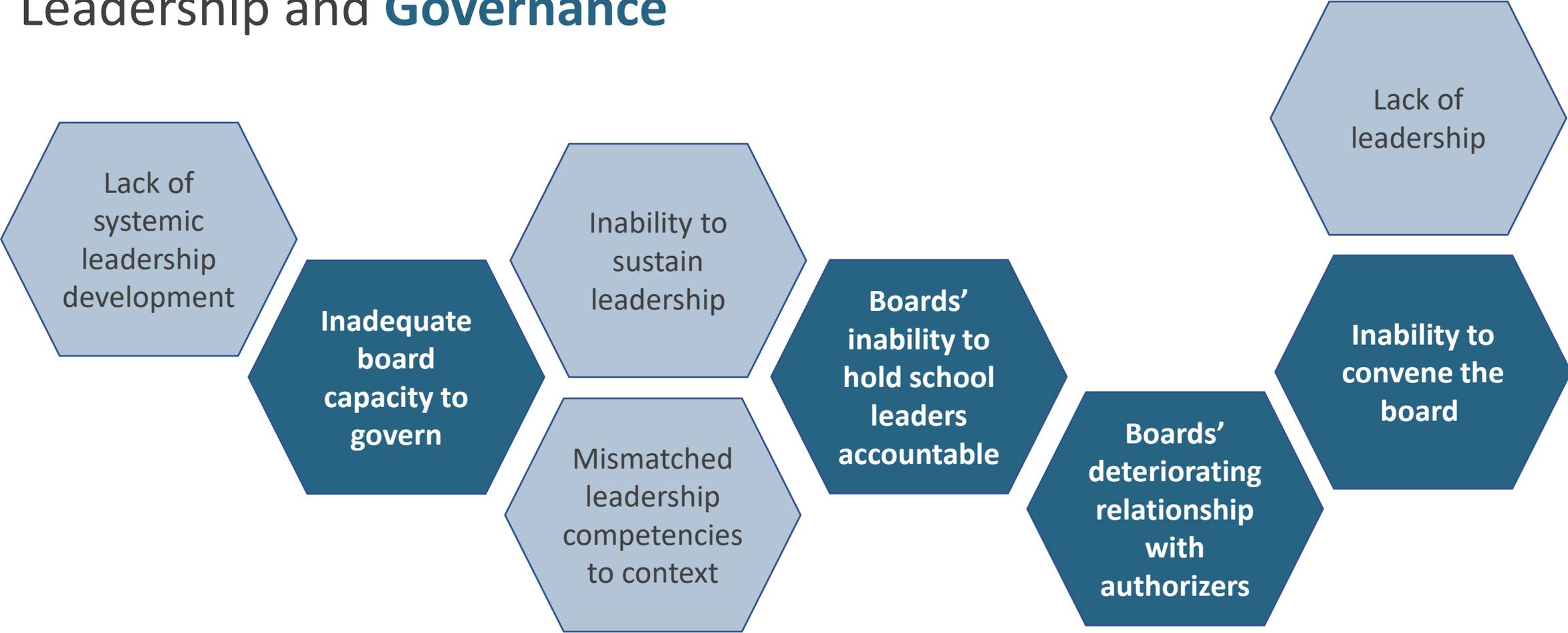
Leadership and Governance



Leadership and Governance



Leadership and Governance



Operations

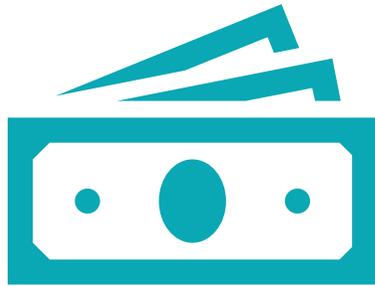


Breakdown in compliance and reporting functions



Failure to align to market needs

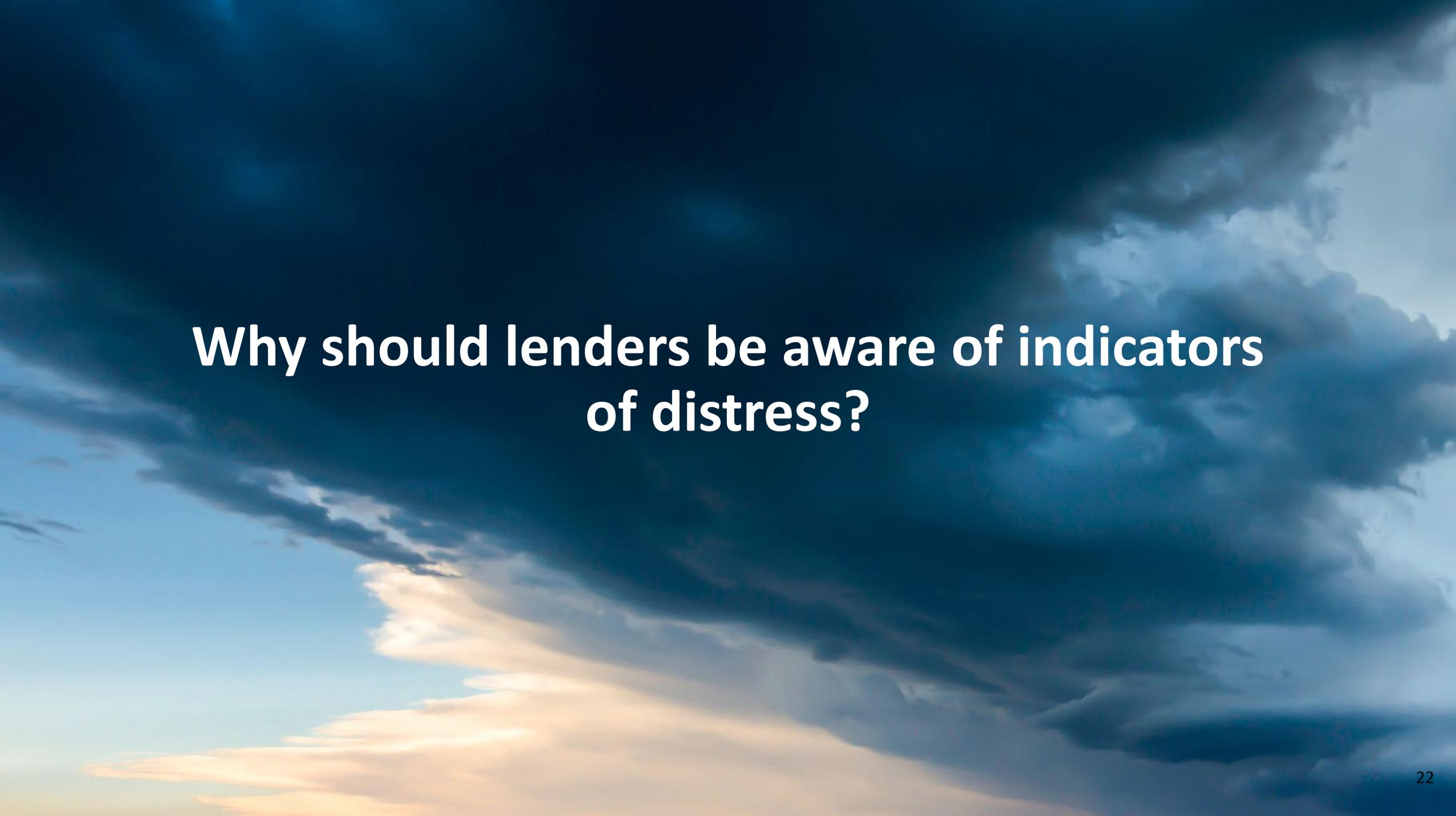
Finance



Failure to properly manage
finances



Misappropriation of funds



**Why should lenders be aware of indicators
of distress?**

Why Indicators of Distress Are Important to Lenders



To better inform lending practices and reduce lending risk



To fill any gaps in existing school underwriting practices with information from authorizers' and lenders' own experience



To help diagnose the health of existing portfolios, which schools may be entering decline, and where supports to schools may be needed

Guiding Questions

1

Which indicators of distress are you seeing in your work as a lender?

2

How could identifying indicators of distress improve your work with schools?

3

How can stakeholders (i.e., lenders, authorizers, CSOs, CMOs) coalesce around the indicators of distress to support schools and ensure equity?



CHARTER SCHOOL GROWTH FUND



Impact



1,075 Schools Serving 500,000 Students in 31 States

3/4

More than three-quarters of the schools we support outperformed their districts in either math or reading on state tests in 2018–19.

62%

62% of the schools in our portfolio are performing on par with or better than their state's average in math—closing achievement gaps with more affluent students.

80%

In nearly 80% of schools in the CSGF portfolio, low-income, black, and Latinx students achieve proficiency in math or reading at higher rates than students of similar backgrounds in their state.

95%

95% of students who attend CSGF-supported schools graduate high school at a rate that is 10 points higher than the national rate for all students and 15 points higher than the national rate for black and Latinx students.

Our strategy is inspired by the venture capital/private equity investment model

How we invest

Long-Term View

What we believe

We seek to build outstanding organizations that can last; we take calculated risks when there are significant upside opportunities

What this looks like

We “go big early” and are usually the largest investor in a charter network; we use low-interest debt to leverage our philanthropic capital

Hands-On Approach

We help the nation’s best charter networks build new capacity and solve longstanding challenges in public education as they grow

We work closely with our portfolio, and have a dedicated team that helps build capacity, spreads outstanding practices, solves challenges, and enables us to get better faster

Ownership Mentality

We believe in focus – making fewer, more significant philanthropic investments that are designed to enable great entrepreneurs and organizations to reach significant impact

We are long-term, strategic partners to our portfolio members and investors

We serve as trusted partners and advisors to the philanthropists who support our work



There are four key pillars to our investment analysis

Our due diligence process evaluates...

Academic Performance

Do schools demonstrate strong academic performance?

Growth

Is the proposed growth trajectory realistic with meaningful impact in target markets?

Financial Sustainability

Can the charter network operate at full scale with minimal need for philanthropy?

Leadership Team

Does the leadership team have the experience/skill to deliver?

Paths to CSGF Support



Seed

Schools and networks growing to serve 250 to 1,000 additional students in next two years



Scale

Schools and networks growing to serve 1,000+ additional students in the next three to five years

Early-stage: Can you replicate the success of your first school(s)?

Leadership

Ability to make school leader to CEO transition

- Entrepreneur profile/scorecard
- Some second person in the org we can bet on
- Key C-team hires in next 12 months identified
- Top-grading needs clear for board and team

Growth

Credible execution plan to five schools

- Year 1-2: clear path to charters, facilities, leaders
- Year 3-5: strategy for above
- Community: deep knowledge of target areas, incl. demand, politics and recruitment strategy

Academics

Clear school model recipe

- Track record at existing school(s)
- Clarity on academic recipe and plan for repeating
- Limited new areas and more detailed plans on these (i.e., MS -> HS, turnaround)

Financial

School unit pencils with margin to support CMO

- School unit: pencils w/ 10%+ margin pre-CMO fee
- Central office: total # of positions to support growth more important than specific roles
- Network: count \$ to network operating need



Mature-stage growth: Do you have a track record of performance? Will further growth advance/develop the broader sector?

Leadership

Sector Leading Executive Team

- Strong C-team and regional managing directors
- Close evaluation of VP, director bench

Academics

Results show ability to balance quality + growth

- Consistency of results across schools, new vs. existing; limited degradation of results with growth
- College completion rates improve with each cohort

Growth

Engine to open 5-10 schools / yr + capacity to manage

- Track record opening 2-5 schools / year
- Fuel to feed growth engine: talent development (teachers, principals, RDs), facilities, fundraising
- Systems to manage complexity of 15K+ system

Financial

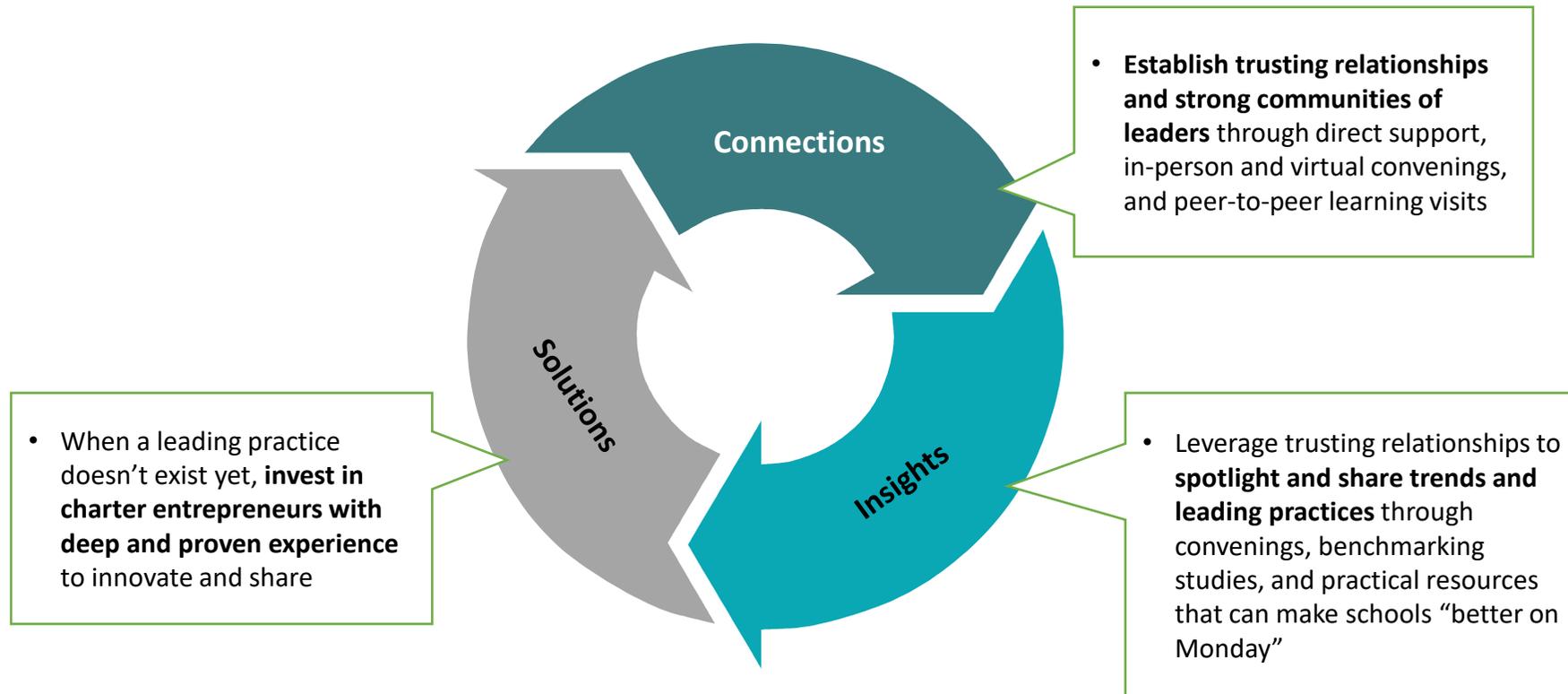
CMO sustainable today

- Current sustainability of CMO in no growth scenario
- Sustainability of existing school unit portfolio
- Clear financial strategy and board level metrics



Our portfolio acts as a national “flywheel” of innovation and improvement.

Our team at CSGF helps the high-performing charter school networks that we support solve problems and get “better, faster” as they grow.



Our close relationships and monitoring of our portfolio members progress versus customized goals allow us to proactively help them overcome challenges

We bet on CEOs to own challenges, and serve as an important thought partner when issues arise

- We believe network leaders are best positioned to identify and drive necessary changes in their orgs
- We ensure that network leadership sees the issue and has a credible plan of action to address it
- We do not directly manage charter networks or intervene in their day-to-day management; but do support and hold them accountable to meeting a clear set of milestones and metrics

We don't exit after one bad year, we exit after multiple years of poor results and lost faith in leader

- Academic turnarounds take 12-24+ months, so we give networks time to course correct as needed
- If we lose confidence in leader and there's a trend of bad results, we will "exit" networks
- We exited four and restructured three investments in our last fund (2011-2016)



Risk By Stage / Lessons Learned



Acceptable Risk

Unacceptable Risk

Pilot School

- Academic model
- Limited scale of future growth

- Lack of market knowledge
- Lack of track record: startup, achievement

Early Stage Growth

- Replication execution
- Principal -> CEO transition
- Underdeveloped or new markets

- Mis-matched skills of CEO
- Poor academic results / school model
- Execution complexity (multi-region)

Middle Stage Growth

- Central office capacity, systems for growth
- Advocacy, politics, community
- Execution complexity (Multi-region)

- Mis-matched skills of #2 or #3 senior leader
- Poor replication execution (blocking/tackling)
- School unit not sustainable

Mature Stage Growth

- Size of CMO (ability to manage @ 15K+)
- Hyper growth
- Execution complexity (Multi-region)

- Poor track record: 4 Legs
- Mis-matched skills of C-Team/central office
- Network not sustainable in a no growth scenario

Questions



Response requested, please!

Please respond to the survey to let us know how we did on this event.



Keep an Eye Out for Upcoming NCSRC Virtual Events & Resources

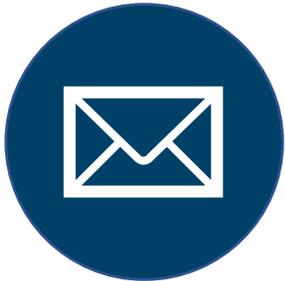
- *Identifying Indicators of Distress in Charter Schools*
- English Learners and Charter Schools: A Learning Experience Focused on EL Instruction
- Leading in the Unknown Self-Guided Master Class



How can you contact us?



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THANK YOU!

