

# The Nuts and Bolts of Charter School Finance

Module Summary



Opportunity Zones  
CHARTER SCHOOL PROGRAMS



## Module 1:

# The Nuts and Bolts of Charter School Finance

## Module Summary

### Charter school history

Publicly funded charter schools, which operate autonomously or semi-autonomously from public school districts, have become a substantial component of the American education system in only a few decades. The first law establishing charter schools was signed in Minnesota in 1991. California followed in 1992, and the U.S. Department of Education (ED) began funding schools through the Charter Schools Program in 1994. By 2000, charter schools enrolled 400,000 students, which grew to more than 3 million students in the 2018-19 school year. There are now nearly 7,500 charter schools across most states, Washington, DC, and U.S. territories.

Many institutions have emerged to serve charter schools, such as the ED-funded National Charter School Resource Center, the National Association of Public Charter Schools, and the National Association of Charter School Authorizers. In addition, a funding environment has emerged that includes charitable giving through foundations and financing products via traditional and mission-oriented financial institutions.

Most charter school policy is set at the state and local level, though the federal government can influence policy through funding and by ensuring that all students receive fair and equitable access to education. States vary in the number and independence of authorizers, the growth of and support for charter schools, charter schools' operational autonomy, and the funding allocated to charter schools.

### Charter school authorizers

Charter school authorizers issue charters to schools and the type of authorizers allowed varies by state. Authorizers also track performance against benchmarks and provide oversight to schools. Common assessment categories that are part of authorizers' performance frameworks for schools include academic performance and curricula, laws and regulations, fiscal management, and governance. In addition, the authorizer reviews and renews school charters on established timelines.

The charter includes removal and closure procedures that the authorizer follows if necessary. Typically, intervention and/or revocation occurs during the periodic charter renewal process, though in extreme cases measures could be taken at other times. Most authorizers have an established review and appeals process that includes clear, objective, and measurable performance indicators that are uniform across schools. This means that political influence is kept to a minimum during decisions about whether a school should remain in operation. In fact, given transparent accountability frameworks, charter school closures are often predictable.

## Charter school facilities

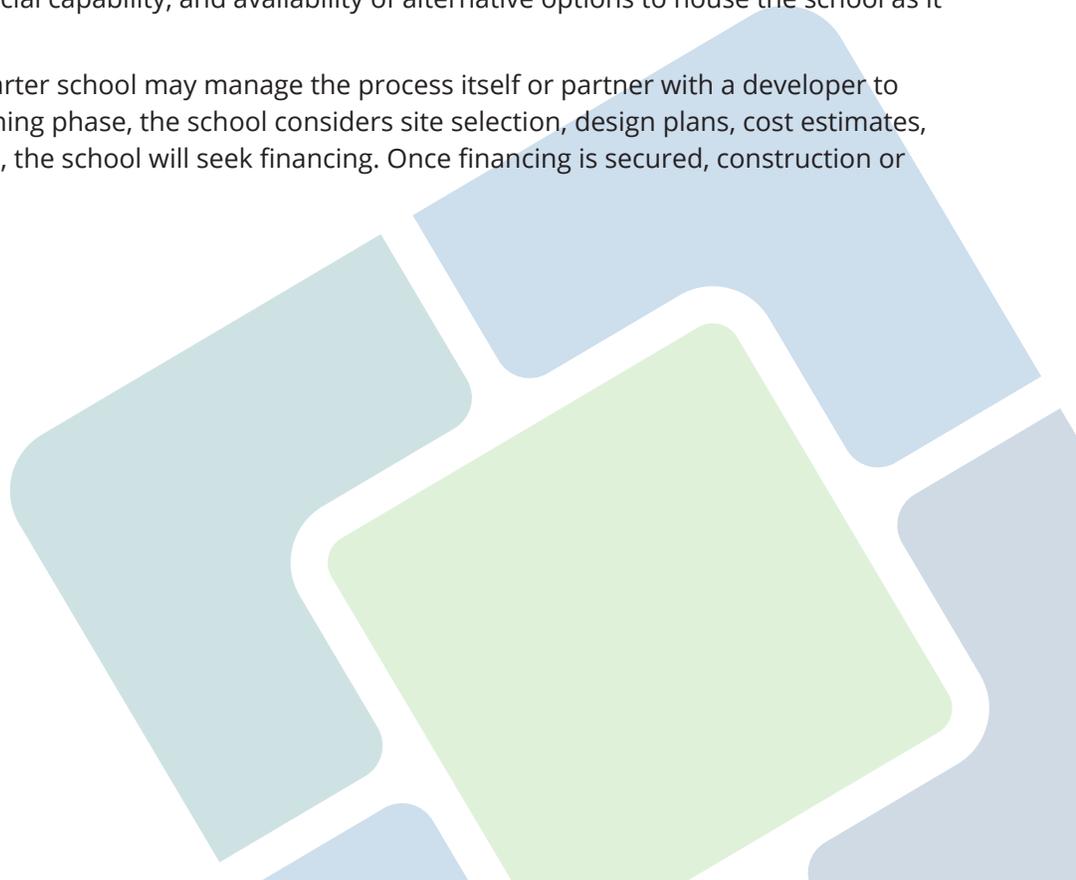
Like any other institutions, charter schools grow and change over time, and this may affect their facility needs. While new schools may need less space initially, their facility needs may change quickly as new grade levels are added or as enrollment increases. Facility planning should take into account these changes and project future needs as enrollment stabilizes.

There are four stages of charter school development.

- **New start.** This stage typically lasts from Years 0-2. It includes the school's planning year and initial opening, which may include fewer grade levels than the school will ultimately serve. During this stage, the school establishes the academic program.
- **Growth.** This stage typically lasts from Years 3-6. During this period, the school will begin serving the full grade spans and number of students planned for in the initial charter petition. In addition, enrollment and community support become established, and academic results begin to be measured and reported.
- **Maturity.** From Year 6 on, this stage is about maintaining and refining best practices to continuously improve outcomes for students. This stage sets the school up for further expansion or replication if desired.
- **Expansion.** In this stage, the school leverages operation experience and name brand awareness to expand. This could mean expanding within the school's current community by serving a full K-12 grade span, or it could mean expanding by opening a school in a new location.

Facility needs should align with the school's short- and long-term goals. In the short term, schools typically seek flexible and affordable facilities; may leverage excess space at district schools, churches, or commercial spaces; and may have to change locations as they grow. For long-term planning, a school should define its space and program needs; identify the target geographic areas that will allow it to serve the intended community; conduct an affordability analysis; and define a target timeline for when a new facility would need to open, taking into account enrollment growth projections, financial capability, and availability of alternative options to house the school as it grows.

When looking for new facilities, a charter school may manage the process itself or partner with a developer to purchase or lease space. In the planning phase, the school considers site selection, design plans, cost estimates, and sources and uses of funds. Then, the school will seek financing. Once financing is secured, construction or renovation can begin.



## Charter school facility financing

When deciding whether to underwrite charter school facilities, lenders typically use the same “five C’s of credit” as they would use with other potential borrowers: character, competition, capacity, collateral, and conditions. Specific to charter schools, lenders review school maturity, enrollment, reauthorization, and affordability. The key driver of lending risk is school maturity; generally, the more mature the school is, the more access it has to lower cost funding options.

For charter schools, lenders tend to consider the following factors when reviewing the “five C’s of credit.”

- **Character.** The lender considers experience of the school leadership (i.e., the board of directors and the school leadership team), teachers’ ability to produce positive student outcomes, and staff retention versus staff turnover.
- **Competition.** Here the lender considers the strength of the charter school in relation to other local schools, both district schools and other charter schools. Academic performance, graduation rates, demand for seats at the charter school, enrollment trends, and student retention are also important data points.
- **Capacity.** The school’s cash on hand, existing debt, income statements, and cash flow are considered here to help the lender determine the school’s ability to repay the loan.
- **Collateral.** The lender may look at the proposed real estate (its appraised value and loan-to-value ratio) as collateral.
- **Conditions.** Loan conditions could include reserves, the type of interest rate (variable or fixed, term versus maturity), and the allowed use of the loan (e.g., real estate or working capital).

Charter schools may receive financing from bank loans, Community Development Financial Institutions loans, tax-exempt bonds, Bond Guarantee Program, New Markets Tax Credits, and/or credit enhancement. Different debt products may be used to underwrite different loan-to-value ratios, which may also depend on the availability of credit enhancement<sup>1</sup>.

Current challenges in charter school financing include a lack of state or local facility funding or the lack of the tax authority to raise funds, and the inability to access credit enhancements available to other public schools. These challenges are amplified by the impact on state and local tax income caused by such crises as the COVID-19 pandemic.

<sup>1</sup> Credit enhancement improves the credit profile of a school to help it acquire capital at a more reasonable cost.

# Review Questions

Answer these questions to check your understanding of this module. The section name above a set of question refers to the section of the videos and the module summary where you will find the information.

## Charter school history

1. When did charter schools begin in the United States?

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2. Who primarily sets charter school policy? (Select one.)

- State and local governments       Federal government

## Charter school authorizers

3. What assessment categories do authorizers typically look at when monitoring charter school performance? (Select all that apply.)

- Academics       Personnel       Regulations       Financial  
 Management       Facilities       Community input

## Charter school facilities

4. Can charter schools lease or own their facilities?       Lease       Own       Both

5. What are the four stages of charter school development?

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6. What factors do charter schools consider when planning for a new facility?

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## Charter school facility financing

7. What types of financing do charter schools typically receive?

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8. What are some factors that lenders may look at specific to charter schools when making a determination about whether to underwrite a facility?

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U.S. Department of Education  
Office of Elementary and Secondary Education

