

The Business of Charter Schools

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Opportunity Zones
CHARTER SCHOOL PROGRAMS

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



The Business of Charter Schools

This brief provides Opportunity Zone investors new to the charter school field with a primer on charter schools.

Purpose and Locations of Charter Schools

Charter schools are tuition-free public schools managed and operated independently from local school districts that share a common goal of ensuring that all children have access to a high-quality education, regardless of students' ethnic, social, or economic backgrounds. Charter schools are operationally autonomous from school districts, which provides flexibility around the schools' academic model, curriculum, staffing plans, and financial resource allocation decisions.

To date, charter school laws exist in almost all states, the District of Columbia, Guam, and Puerto Rico. In the 2018-19 academic year, almost 7,500 charter schools were operational nationwide, serving 3.3 million students¹. Approximately 80 percent of all charter schools nationally are concentrated in 16 states, with 38 percent of schools concentrated in California, Florida, and Texas alone². Regardless of the state in which they operate, charter schools are generally concentrated in urban areas, many of which are socioeconomically disadvantaged and have populations that are predominantly non-White. The traditional public schools located in these areas often far under-perform the state, city, and district on academic proficiency on state tests and high school graduation rates: precisely the issues that charter schools seek to address. The population characteristics for communities with charter schools are also commonly descriptive of census tracts that are eligible for designation as Opportunity Zones³.

Charter School Accountability

While charter schools are allowed to operate autonomously, they are held accountable for their performance by state-designated bodies called authorizers. In states with charter school laws, one or more authorizers are charged with reviewing and approving new charter school applications, monitoring charter school performance over time, and reauthorizing schools at the end of their charter term. Authorizers can be state agencies, local education agencies, colleges or universities, and third-party nonprofit organizations. Of the approximately 1,000 authorizers in the U.S., 23 oversee almost half of all schools, while most authorizers only oversee 1 or 2 schools.

The National Association of Charter School Authorizers articulates three key principles for authorizers: 1) Maintain high standards for schools, 2) Uphold school autonomy, and 3) Protect student and public interest. More specifically, charter contracts are typically limited in duration (e.g., 5 years) and stipulate academic, fiscal, and organizational performance benchmarks. Authorizers monitor ongoing performance and review charter renewal applications against these benchmarks. Academic performance is usually compared against standardized state testing results, wherein charter schools are often required to approach or exceed local and state testing results generated by traditional public schools.

Authorizers typically conduct an annual review of charter school outcomes and complete a full re-evaluation of the charter school's progress every 5 years. If the school is performing as expected, it typically receives a re-authorization for an additional 5 years, though in some states, reauthorizations can be for as long as 10 to 15 years. Charter reviews are part of a public process, and many authorizers have policies in place that govern the

¹ Unless otherwise noted, figures are based on Bellwether. (2019). *The State of the Charter Sector*.

² National Alliance for Public Charter Schools. (2018). *Estimated Public Charter School Enrollment*.

³ To locate Opportunity Zone census tracts, visit <https://opportunityzones.hud.gov/resources/map>.

escalation of performance issues. If a school is not meeting the terms of its charter contract, one of two outcomes is likely:

- 1) The charter school is issued with a contingent or probationary charter, which typically carries a shorter term (1 to 3 years) and includes certain specific, agreed-upon milestones to receive a full, unconditional reauthorization; or
- 2) The charter school's authorization to exist may be withdrawn entirely, resulting in a revocation of its authorization to operate and of any federal, state, and local funding streams that support those operations.

Many states have an appeals process, which further ensures that decisions about charter revocation are kept to an objectively measurable standard. How frequently revocation occurs varies by state, but among large authorizers across the country, school closure rates were 3.3 percent in 2016, including voluntary school closures. Of all school closings, most occurred during the planned charter renewal evaluation.

Political Risk to Charter Schools and Mitigating Factors

Though independent of local school district administration, the processes by which charter contracts are granted, reviewed, renewed, and funded are public processes that lend themselves to political influence. The following two areas exemplify that.

1) Charter authorization and re-authorization

The decision to grant, renew, or revoke a charter school's authorization to operate includes an assessment of community support and need. Many authorizers will seek to measure a community's demand for a charter school through petitions and public hearings before making the decision to initially authorize the charter school, and by reviewing the number of lottery applications received once the charter school is operating. Public hearings provide a forum for charter school opponents and advocates as well as elected officials to add their voices to the decision. Reviewing the minutes or transcripts of any previous public meetings, including charter school board meetings, and understanding trends in the demand for seats (for instance, enrollment applications received) help to gauge the extent to which community support does or does not exist. As noted above, the risks of unexpected political interference in the re-authorization or closure of a charter school are mitigated in situations where the authorizer applies measurable, objective, and transparent performance frameworks to monitor charter school outcomes and has a clearly stated intervention policy.

2) Charter funding

Beyond the initial authorization and re-authorization process, elected officials have the ability to influence charter school funding. At the highest level, state and local governments set the base funding formula for all public schools, including charter schools. Legislators also have the ability to influence specific funding streams that disproportionately affect charter schools and create potential inequities between charter school funding and traditional public school funding. The most typical areas where funding disparities exist are around student transportation and facilities (both the physical building and the operations). Assessing the affordability of such costs as a percentage of a charter school's total revenues is a key indicator of whether the charter school is well positioned to manage these unfunded expenses or whether the cost burden may be unsustainable and ultimately become a risk to the quality of the charter school's operations.

Summary

Charter schools are located throughout the country and often serve similar demographics as Opportunity Zones. While charter schools are independent from local school districts, the authorization and renewal processes are led by approved authorizing organizations, helping to ensure that reviews of a charter school's authority to operate are rooted in community needs and standardized performance measurement.





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