



## Charter School Application Requirements Are Reasonable; Financial Management Problematic

### *at a glance*

The number of charter schools in Florida has risen steadily over the past nine years. In 2004-05, 300 charter schools served over 83,000 students. Florida ranks behind only California and Arizona in the number of charter schools currently in operation.

Florida's charter school application requirements are extensive but reasonable. Local school boards approved more than half of the charter school applications considered. The state's appeals process helps to ensure that school board reasons for denial are fair.

Charter schools often face challenges that put them at risk for chronic financial deficits, including high facility costs, limited expertise in financial management, and small enrollment. Lack of accurate and timely financial data makes it difficult to identify and provide assistance to schools with deteriorating financial situations.

### Scope

This report is one in a series of reports that examine Florida charter schools. These reports provide information to the Legislature to assist it in its review of charter schools as required by s. 1002.33(22), *Florida Statutes*. This report focuses on the operation of charter schools and addresses two questions.

- How does Florida's process for establishing charter schools compare to those of other states, and are Florida's requirements reasonable?
- How well are charter schools performing financially, and what steps can be taken to improve their financial management?

Two additional reports address the academic performance of charter school students.

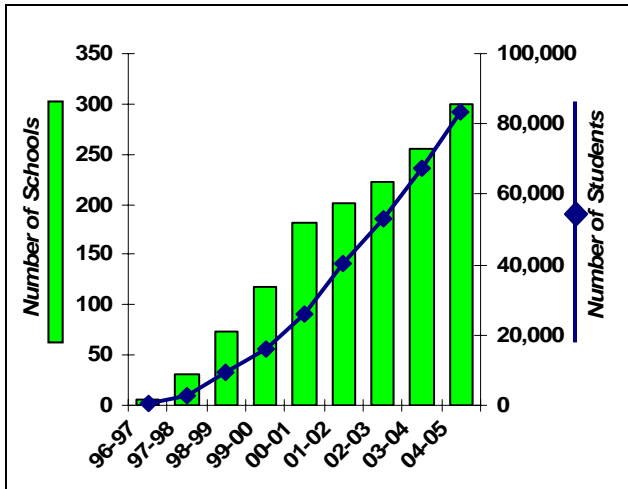
### Background

The charter school movement emerged in the early 1990s, partly in response to public dissatisfaction with the performance of traditional public schools. Minnesota established the nation's first charter schools in 1991. In 1996, the Florida Legislature authorized charter schools as a means to improve student learning, increase teaching innovation, provide students and parents with more choice, increase accountability, and provide competition within the public school system.<sup>1</sup>

The number of charter schools in Florida has grown steadily since their inception (see Exhibit 1). In 1996, the state had five charter schools that served 574 students. By January 2005, 300 charter schools served over 83,000 students. Charter schools operate in 42 of the state's 67 school districts.

<sup>1</sup> Chapter 96-186, *Laws of Florida*.

**Exhibit 1  
The Number of Charter Schools and Students Has Increased Steadily Over the Past Nine Years**



Source: OPPAGA analysis of DOE data.

Currently, 40 states authorize charter schools as part of their public school systems.<sup>2</sup> Florida ranks behind only California and Arizona in the number of charter schools in operation.

Florida’s charter schools are publicly funded, nonsectarian schools that operate under contracts (charters) with their sponsors, usually local school boards.<sup>3</sup> They are largely independent of the school districts in which they operate and are managed by their own governing boards. Florida’s charter schools are open to all students and may offer a specialized curriculum that emphasizes science, the arts, and/or programs for at-risk students.

## Questions and Answers —

This report focuses on the operation of charter schools and addresses two questions.

- How does Florida’s process for establishing charter schools compare to those of other states, and are Florida’s requirements reasonable?

<sup>2</sup> In addition, Washington D.C. and Puerto Rico authorize charter schools as part of their system of public education.

<sup>3</sup> A university may grant a charter to a developmental research (laboratory) school created under s. 1002.32, *F.S.*, limited to one school per university except charter lab schools authorized prior to June 1, 2003.

- How well are Florida’s charter schools performing financially, and what steps can be taken to improve their financial management?

## Establishment of Charter Schools

*How does Florida’s process for establishing charter schools compare with those of other states, and are Florida’s requirements reasonable?*

The 40 states with charter school laws vary widely in their processes for establishing the schools. Florida’s law contains several provisions that are more restrictive than those of most states, but these provisions help to ensure that charter schools are academically and financially successful. Although Florida’s application process is extensive and application approval rates vary across school districts, this does not appear to have impeded the creation of charter schools statewide, and local school boards have approved more than half of the charter school applications considered. The state’s appeals process helps to ensure that school board reasons for denial are fair.

***Florida’s application requirements are extensive but reasonable***

In Florida, charter schools may be organized by individuals and groups, school personnel, universities, municipalities, or other entities as established by state law. Organizing groups submit their application for charter status to the sponsoring organization, typically the local school board, which reviews the application and decides whether or not to approve the application. Upon approval, the organizing group forms a governing board that negotiates a contract with the sponsoring organization. This contract delineates expectations of both parties regarding the school’s academic and financial performance.

Florida law establishes application requirements for entities seeking to establish a charter school. As shown in Exhibit 2, charter school applicants must provide information that relates to core aspects of school management, operation, and accountability. For example, applications must

clearly describe the planned purpose of the charter school, provide a detailed curriculum plan for improving and measuring student learning, and describe aspects of the curriculum and differentiated teaching strategies. Applicants also must provide basic financial information such as expected assets, projected sources and amounts of income, and projected expenses including start-up costs. These requirements are reasonable in that they help to ensure that school boards have the information necessary to assess whether an applicant has set forth a comprehensive plan for the academic success and financial viability of the charter school.<sup>4</sup>

<sup>4</sup> This discussion refers to state requirements, which are considered a minimum. The Department of Education suggests that local school boards establish additional requirements as appropriate for the local context that go beyond those required in law. We did not evaluate to what extent local application requirements appear reasonable.

Florida provides several resources to help applicants understand and meet these requirements. Entities that provide these technical assistance resources include the Department of Education, regional resource centers, private associations, and in some cases, local school districts. The Department of Education offers a variety of services to support and assist charter schools during the application process and throughout their operation. For example, the department has developed an application template to help ensure that organizing groups provide sufficient information in applications submitted to local school boards for consideration. The department also contracts with resource centers located throughout the state to assist charter schools with legal matters, curricular development, management issues, financial planning, and various other aspects of running a charter school.

## Exhibit 2 Charter School Application Requirements Are Extensive But Reasonable

Florida Law Requires Charter School Applications to:	Why Necessary?
Demonstrate how the school will use the guiding principles and meet the statutorily defined purpose of a charter school.	This information is needed to help ensure that applicants have a thorough understanding of the guiding principals and statutory purposes of the law and to demonstrate alignment of student needs with the school’s mission, philosophy, and goals.
Provide a detailed curriculum plan that illustrates how students will be provided services to attain the Sunshine State Standards.  Describe the reading curriculum and differentiated strategies that will be used for students reading at grade level or higher and a separate curriculum and strategies for students who are reading below grade level. A sponsor shall deny a charter if the school does not propose a reading curriculum that is consistent with effective teaching strategies that are grounded in scientifically based reading research.	This information is needed to help ensure that applicants propose a comprehensive curriculum aligned with the school’s mission and goals and the Sunshine State Standards. It also helps ensure that the curriculum reflects an understanding of research and best practices and offers the potential for challenging students to high levels of performance. In addition, this information helps to ensure that applicants propose a reading program that is consistent with state requirements and Just Read, Florida! that offers potential for challenging students of varying ability levels, and ESE and ESOL students to high levels of performance.
Contain goals and objectives for improving student learning and measuring that improvement. These goals and objectives must indicate how much academic improvement students are expected to show each year, how success will be evaluated, and the specific results to be attained through instruction.	This information is needed to help ensure that applicants have a clear understanding of the state testing requirements, but go beyond these basic requirements to provide a complete and accurate picture of student progress from a variety of sources, including methods used to identify the educational strengths and needs of students and a comprehensive plan to compare the charter school students’ rate of progress to comparable student populations.
Contain an annual financial plan for each year requested by the charter for operation of the school for up to five years. This plan must contain anticipated fund balances based on revenue projections, a spending plan based on projected revenues and expenses, and a description of controls that will safeguard finances and projected enrollment trends.	This information is needed to help ensure that applicants have the capacity to carry out their educational plan and that they will follow standard accounting practices and have adequate resources when needed to help ensure the fiscal viability of the school.

Source: Section 1002.33(6), *F.S.*, and school district application review criteria.

**Florida’s requirements for charter school approval are reasonable**

States vary widely in their laws governing who may sponsor or authorize a charter school. According to information compiled by the Education Commission of the States, 24 states authorize multiple entities to create and approve charter schools. Depending on the state, the entities that approve charter schools can include local school boards, nonprofit organizations, cooperatives, public postsecondary institutions, private colleges, state or regional boards of education, local chancellors, the state board of regents, community colleges, and/or the state commissioner of education.

Florida’s process is somewhat more restrictive, as charter school applications generally must be approved by local school boards. However, state universities may grant a charter to a developmental research school after consulting with the district school board. In these cases, the university is considered to be the school’s sponsor. In addition, community colleges may work with the school district(s) in their designated service area to develop charter schools that offer secondary education.<sup>5</sup>

Allowing multiple entities to authorize charter schools could encourage the development of the schools and give applicants alternative avenues to seek supportive sponsors. However, Florida’s requirement helps to ensure oversight by local staff who are trained in school operations and are knowledgeable about local education needs. Broadening the approval process to allow entities such as nonprofit organizations to approve charter schools also would require creating alternate mechanisms for ensuring that state and federal regulations are followed and that certain federal entitlements such as Title I, Individuals with Disabilities Education Act (IDEA), and supplements for migrant students are appropriately administered and made available to charter school students. In addition, authorizing additional entities to approve charter schools may require a constitutional change, since the Florida Constitution [Article IX, section 4(b)] designates

<sup>5</sup> Of the 300 charter schools in operation in 2004-05, two were sponsored by Florida State University, and two universities and three community colleges each partnered with a charter school sponsored by a school board.

school boards to control and supervise all free public schools.<sup>6</sup>

**Florida school districts receive about 100 applications each year from charter school organizers**

In the three most recent school years, a total of 293 charter school applications were received by Florida school districts.<sup>7</sup> Although the number of applications school districts received varied across the state, large, urban school districts received the greatest number of applications (see Exhibit 3).

Thirty-three school districts reviewed at least one charter school application between 2001-02 and 2003-04. The state’s five largest school districts accounted for half of all applications received during this period. For instance, Miami-Dade County School District considered 40 applications, followed by Broward (33), Palm Beach (33), Orange (23), and Hillsborough (17).

**Exhibit 3  
School Districts Varied Greatly in the Number of Charter School Applications Considered Over the Past Three Years (2001-02 through 2003-04)**

Number of Applications Considered	Districts
0	<b>34 school districts:</b> Baker, Calhoun, Charlotte, Citrus, Clay, Columbia, DeSoto, Dixie, Gadsden, Gilchrist, Glades, Gulf, Hamilton, Hardee, Hendry, Holmes, Indian River, Jackson, Jefferson, Lafayette, Leon, Levy, Liberty, Madison, Okaloosa, Okeechobee, St. Johns, St. Lucie, Seminole, Suwannee, Taylor, Union, Wakulla, Washington
1-5	<b>18 school districts:</b> Alachua, Bay, Bradford, Collier, Escambia, Flagler, Franklin, Hernando, Highlands, Manatee, Martin, Monroe, Nassau, Putnam, Santa Rosa, Sumter, Volusia, Walton
6-10	<b>6 school districts:</b> Duval, Lake, Lee, Pasco, Pinellas, Sarasota
11-15	<b>3 school districts:</b> Brevard, Marion, Osceola
More than 15	<b>6 school districts:</b> Broward, Hillsborough, Miami-Dade, Orange, Palm Beach, Polk

Source: OPPAGA survey of school districts.

<sup>6</sup> For a more detailed discussion of the advantages and disadvantages of different sponsorship options, please see Appendix A in OPPAGA [Report No. 99-48](#).

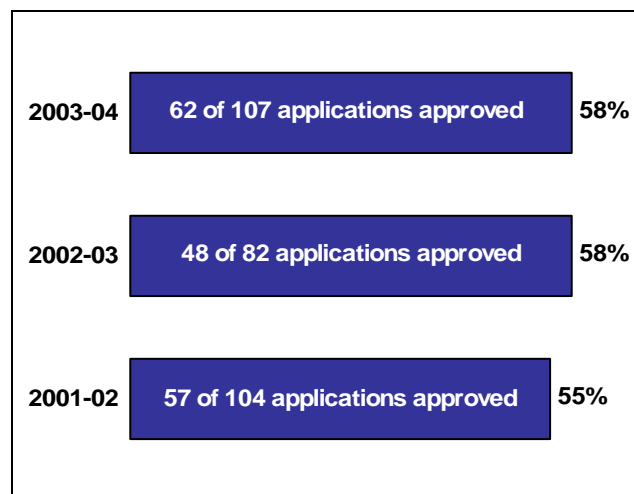
<sup>7</sup> This information is based on an OPPAGA survey of school districts for the school years 2001-02, 2002-03, and 2003-04. This number does not include 85 applications filed but later withdrawn prior to consideration.

Other Florida school districts received far fewer applications. For instance, eight districts received only one charter school application between 2001-02 and 2003-04, and 34 districts received no applications. School districts with the fewest students generally received no applications. For example, most (25) of the 34 districts that did not receive any applications had fewer than 10,000 students.

***Local school boards approved more than half of the charter school applications considered***

Of the 293 applications considered between 2001-02 and 2003-04, local school boards approved slightly more than half (165, or 56%).<sup>8</sup> As shown in Exhibit 4, the percentage of applications approved by local school boards has remained relatively constant over the three-year period.

**Exhibit 4  
School Boards Approved Slightly More Than Half of Charter School Applications Considered Over the Past Three Years**



Source: OPPAGA survey of Florida school districts.

Our analysis of applications that were denied and later appealed showed that school board reasons for denying applications included concerns over lack of financial resources, adequacy of school facilities, insufficient planning, and staffing issues. In other cases, the applicants were deemed to lack adequate staffing or did not have community support to open the school.

***The state-level appeals process provides oversight of local decisions to deny charter school applications***

To help ensure that charter school applications are appropriately considered by local school boards, Florida like most states allows applicants to appeal a school board’s unfavorable decision.<sup>9</sup> Applicants may submit an appeal to the State Board of Education which then convenes the Charter School Appeal Commission, which in turn makes a recommendation to the State Board of Education.<sup>10</sup> The State Board’s decision is considered a “final action” with which the school board must comply, but it is subject to judicial review.

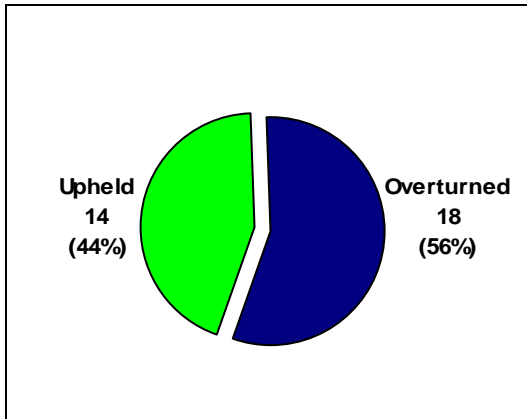
Over the past three years, applicants have used this process to appeal 32 (25%) of the 128 local school board decisions to deny their charter school applications. As shown in Exhibit 5, the State Board of Education overrode the local school district decision in over half of these cases (18 of 32). The board overturned school board denials of charter applications for two primary reasons—determining that the school board provided insufficient evidence to deny the application, and determining that the school board used reasons outside those provided in Florida law as the basis for denying the application.

<sup>8</sup> This approval rate excludes the applications that were withdrawn prior to being considered by the school board. There were 85 applications that were withdrawn by the applicants statewide prior to consideration. The applicant may withdraw the application and resubmit it at a later date for approval by the school board.

<sup>9</sup> Of the 40 states which have enacted charter school laws, 30 provide an appeal mechanism.

<sup>10</sup> The State Board of Education typically accepts the appeal commission’s recommendations. Through June 2004, the SBE accepted the commission’s recommendation in 17 of 22 cases.

**Exhibit 5**  
**The State Board of Education Overturned**  
**More Than Half of Local School District Denials of**  
**Charter Applications That Were Appealed**



Source: OPPAGA analysis of application appeal documents from 2001-02 to 2003-04.

The 2002 Florida Legislature strengthened the appeals process by making the State Board of Education decision binding on school districts. Prior to this change, the State Board’s decision was advisory to school districts. The amended law provides that the State Board of Education’s decision is a final action. As a result of this change, a higher percentage of applications that were initially denied have resulted in the opening of charter schools. In 2001-02, only 2 of the 8 applicants who won appeals by the State Board of Education subsequently opened charter schools. In contrast, 7 of the 10 applicants who won appeals under the new process have opened schools.<sup>11</sup>

***The number of charter schools varies significantly across the state***

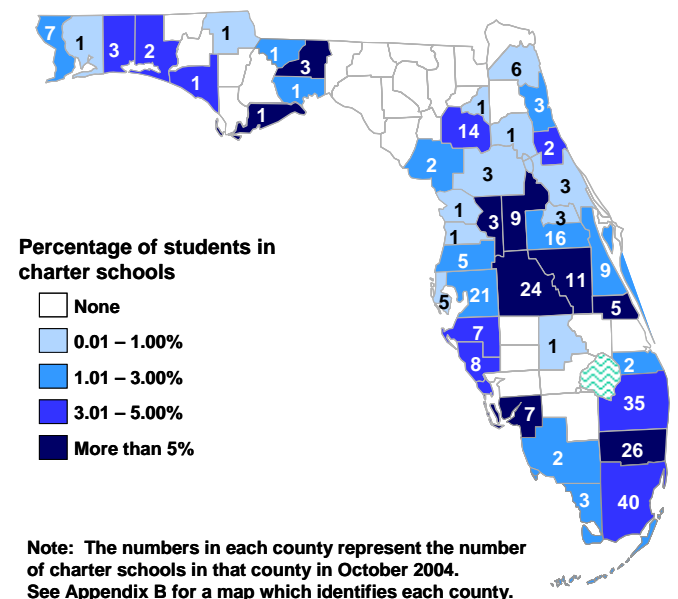
In 2004-05, charter schools operated in 42 of the state’s 67 school districts. Of these, nearly half (138 of 300, 46%) were located in the state’s five largest school districts: Miami-Dade, Broward, Hillsborough, Palm Beach, and Orange. The remaining charter schools were located in 37 other school districts, with most of these districts having five or fewer charter schools each. Eleven school districts had one charter school in operation.

<sup>11</sup> In the remaining three cases, the school board is pursuing judicial review of the State Board’s decision to overturn the denial of the applications.

The state’s smallest school districts were more likely to have no charter schools in operation, although there were some exceptions. Of the 25 school districts with no charter schools operating in 2004-05, over two-thirds (17, or 68%) had fewer than 5,000 students. These school districts were primarily located in interior north central (such as Union and Columbia) and interior south central Florida (including Glades, Hendry, and Okeechobee). Clay and St. Lucie, each with over 30,000 students, were the largest Florida school districts with no charter schools.

Appendix A provides a list of the number of charter schools, the grade levels served, the number of students attending charter schools, and the percentage of public school students attending charter schools by school district.

**Exhibit 6**  
**The Number of Charter Schools and Students They**  
**Serve Varies Across Districts**



Source: OPPAGA analysis of DOE data.

About 3% of Florida’s public school students attend charter schools in 2004-05. The percentage of district students attending charter schools varied widely across the state, with over 5% of students attending charter schools in five districts (see Exhibit 6). Sumter County has the highest percentage (21%) of students attending charter schools.

## Financial Management

### *How well are Florida's charter schools performing financially, and what steps can be taken to improve their financial management?*

In 2002-03, almost one-third of all Florida charter schools operated with an unreserved fund balance deficit. Year-end financial deficits indicate that a charter school has a financial weakness that may result in financial difficulties for the school. There are several factors that contribute to the financial difficulties of charter schools, including the high cost of facilities, inaccuracies in enrollment projections, the lack of expertise in financial management, and the small size of some charter schools. Lack of accurate and timely financial data also makes it difficult to identify and provide assistance to schools with deteriorating financial situations. While the Department of Education has taken some steps to assist financially struggling charter schools, it should take a more active role in systematically identifying charter schools either at risk of financial difficulty or in need of assistance to overcome a financial deficit.

### *Charter schools are funded like other public schools*

Charter schools may receive a combination of federal and state funding, but the majority of their funding is received from the state through the Florida Education Finance Program. As with most of the 40 states that currently have charter school laws, Florida funds charter schools like other public schools, receiving funds based on the number of full-time equivalent (FTE) students enrolled. For the 2004-05 school year, charter schools accounted for 3.2% of statewide Florida Education Finance Program unweighted FTE base funding.<sup>12</sup> School districts are permitted to retain up to 5% of the FTE funding generated by charter schools to cover district administrative costs for managing the charter contract and collecting and reporting required

data to the state.<sup>13</sup> Charter schools also may receive additional financial assistance including state capital outlay and federal start-up funds.

Some charter schools in Florida are eligible to receive fixed capital outlay funding. These include charter schools that have been in operation for three or more years, are part of an existing feeder chain of charter schools (i.e., an elementary, middle, and high school that over time serve the same group of students) within the same district already receiving capital outlay, or have been accredited by the Commission on Schools of the Southern Association of Colleges and Schools.<sup>14</sup> These charter schools receive fixed capital outlay funding based on their enrollment. For each of the past four fiscal years, the Legislature appropriated \$27.7 million for charter school facility construction and maintenance.<sup>15</sup> In 2003-04, 222 charter schools received capital funding. These schools received an average of \$124,775 in funding, although this amount ranged widely from \$4,164 to \$1,007,988 per individual school.<sup>16</sup>

Although charter schools may receive federal start-up funding, most states, including Florida, do not provide start-up funding for charter schools. Of the 40 states that have enacted charter school legislation, only 8 provide financial assistance to charter schools to help pay for start-up costs. However, some Florida charter schools may be eligible for a start-up grant of up to \$250,000 each from the United States Department of Education (USDOE). As shown in Exhibit 7, Florida charter schools received, on average, \$180,566 for first year grants and \$246,429 for second year grants in

<sup>12</sup> Based on their FTE, charter schools account for \$305.8 million of \$9.6 billion unweighted FTE base funding of \$3,670.26 per student.

<sup>13</sup> A sponsor may only withhold a 5% administrative fee for enrollment for up to and including 500 students. For charter schools with populations of 501 or more students, the difference between the total administrative fee calculation and the amount of the administrative fee withheld may only be used for capital outlay purposes specified in s. 1013.62(2), *F.S.*

<sup>14</sup> Schools may use these funds for a variety of purposes, including purchase real property, construction of school facilities, or purchase or lease of permanent or relocatable ("portable") school facilities. They may also use capital funds to purchase vehicles to transport students to and from the charter school or to renovate, repair, and maintain school facilities.

<sup>15</sup> Notwithstanding standard eligibility requirements, certain schools eligible for capital funding in 2002-03 had priority for capital outlay funding in 2003-04.

<sup>16</sup> These funds are distributed based on 1/15<sup>th</sup> student station costs per FTE.

2003-04. The USDOE provides these funds to assist charter schools in their first two years of operation.

**Exhibit 7  
In 2003-04, 95 Florida Charter Schools Received Federal Start-Up Grant Funds**

	First Year	Second Year
Total	\$9,570,000	\$10,350,000
Number of Schools	53	42
Average Award	\$180,566	\$246,429

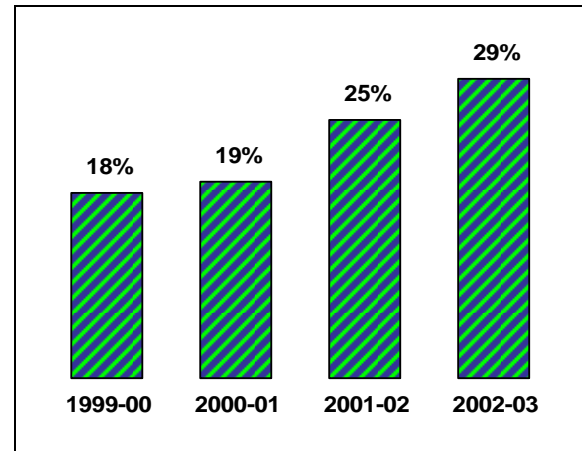
Source: Florida Department of Education Choice Office.

***A growing number of charter schools may be experiencing financial difficulties***

While many charter schools have successfully managed their finances, a growing number of charter schools have experienced financial deficits.

In 2002-03, 29% (62) of charter schools operated with an end-of-year financial deficit.<sup>17</sup> The percentage of charter schools with an end-of-year unreserved fund balance deficit has increased steadily from 18% in 1999-00 to 29% in 2002-03, the most recent year for which complete data are available (see Exhibit 8).<sup>18</sup> Such deficits in end-of-year unreserved general fund balances can force schools to cut important services, borrow money (thereby accruing more debt), or rely on an operator’s personal resources to continue to operate. Over time, a chronic unreserved fund balance deficit puts a charter school at risk of closure because it can no longer pay its debts and/or provide essential educational services.

**Exhibit 8  
In 2002-03, 29% of Florida’s Charter Schools Had a Financial Deficit**



Source: Auditor General Report Nos. 02-082, 03-047, 2004-058, 2005-054.

A year-end financial deficit indicates that a charter school has a financial weakness that may result in financial problems for the school. Other charter schools may be experiencing financial difficulty but not yet encountering negative fund balances. For instance, a charter school could avoid experiencing an unreserved fund balance deficit by deferring needed capital investments or cutting costs in areas such as classroom supplies or teacher salaries and benefits. While these actions may avoid deficits in the short run, they can also lead to longer-term problems. Currently the state has no systematic means to identify schools that are experiencing financial difficulty but not yet in a deficit situation. Stronger systems are needed to identify schools early on that may be experiencing financial difficulty to help them avoid eventually closing due to financial problems.

***Several factors contribute to the financial difficulties experienced by some charter schools***

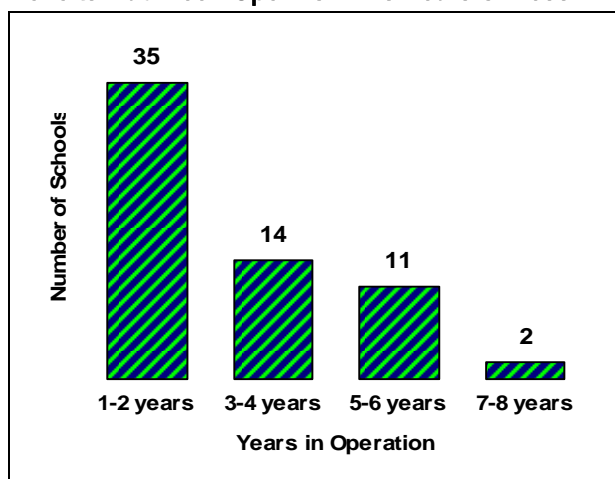
Factors that contribute to the financial difficulties of some charter schools include the high cost of facilities, inaccuracies in enrollment projections, a lack of expertise in financial management, and the small size of some charter schools. In addition, financial deficits were particularly prevalent in schools operated by an education management organization.

<sup>17</sup> This figure is based on the 217 charter schools included in the Auditor General’s Report No. 2005-054. The Auditor General’s report identified those charter schools that ended the year with a deficit unreserved fund balance in their general fund (for statements using the governmental model) or deficit unrestricted net assets in their unrestricted fund (for statements using the not-for-profit model).

<sup>18</sup> There is currently no national benchmark data and little information available from other states. However, in Minnesota, about one-fourth of the charter schools open in Fiscal Year 2002 had financial problems, as indicated by a negative fund balance or deficit spending combined with a low fund balance. In Fiscal Year 2003, 19% of charter schools in Massachusetts ended the year with a negative fund balance.

High start-up and facilities costs. Newly opened charter schools are at greater risk of operating losses due to their high start-up costs. In 2002-03, about half (35 of 62, or 56%) of Florida charter schools with unreserved fund balance deficits were in their first two years of operation (see Exhibit 9). The deficit rate decreased substantially after two years and generally declined with each additional year of operation. National studies suggest that the increased financial difficulty experienced by charter schools in their first two years of operation is largely due to the inability of some charter schools to obtain sufficient funds to cover the high start-up and facilities-related costs associated with opening.

**Exhibit 9**  
**In 2002-03, About Half of Charter Schools with Deficits Had Been Open for Two Years or Less**



Source: OPPAGA analysis of Department of Education data and Auditor General analysis of audit reports.

Some of the charter school operators who we contacted indicated that they had difficulty finding adequate, affordable existing facilities and had to pay for costly refitting and remodeling of facilities to make them a suitable learning environment and to meet state safety codes. In order to make these large, upfront capital investments, charter school operators often used money needed for classroom and school support services (such as transportation and food services) to pay for facilities. As noted in the Senate’s [Interim Project Report 2005-2006](#) on the operation of charter schools, charter schools often must use FEFP funds to pay for or

to supplement other funds for facilities-related costs.

Some charter schools may receive federal and state financial assistance for facilities-related costs. However, federal funds become available only shortly before a school opens, which can require charter school operators to rely on personal financial resources (or that of supporters) to purchase land and/or renovate facilities until the funds are received. Charter school operators who do not have the financial resources or the backing of entities such as municipalities or management companies may have difficulty covering facilities start-up costs without incurring debt until they receive the federal grant monies.

State funding also has helped charter schools to pay for facilities. The Florida Legislature has provided capital outlay funding for charter schools since 1996. Currently, charter schools receive this funding based on their enrollment. Because this money is shared among all the eligible charter schools and has remained constant for the last four years, as the number of eligible charter schools has increased, the amount that each school receives has decreased over time.

Inaccurate enrollment projections. A second reason why some charter schools experience financial difficulties is that they fail to accurately project the number of students they will serve. Because a large portion of a charter school’s funding is based upon enrollment, inaccuracies in enrollment forecasting can cause budgetary problems. Like all public schools, charter schools that underestimate enrollment must serve those students without receiving additional funding until the next enrollment count when funding will be provided.<sup>19</sup> Conversely, a school that overestimates enrollment is required to return funding to the state, which can be problematic if it has already spent the funds. For example, if a school hires teachers and buys materials for a projected enrollment of 100 students but only 90 students actually enroll, the school must repay the funds it received for the 10 students

<sup>19</sup> Adjustments and repayments are handled at the district level and depend on the specific arrangements between each district and its charter schools.

even through it has used these funds for salaries and supplies. The consequences of inaccurate enrollment projections can be more substantial for charter schools than traditional public schools because charter schools cannot absorb the resulting shortfalls as easily as school districts that can shift funds between schools and within larger budgets.

Lack of financial management expertise. Unfamiliarity with education finance and budgeting also can contribute to financial problems of some charter schools. While no data exists on the financial management expertise of charter school operators, charter school experts indicate that many charter school employees have little to no financial management experience and are unfamiliar with governmental accounting conventions. As a result, some charter schools do not adequately track their finances and discover financial problems only after they have overspent their available funds.

Lack of economies of scale. Finally, the small size of charter schools can have a considerable impact on their ability to meet financial obligations. Many charter schools have small enrollments and thus can have a difficult time building reserves and contingency funds. As a result, unexpected expenses are likely to have a greater impact on a charter school's budget than on a traditional school with a larger student population that can draw on its district's budget if needed. In the absence of healthy reserves, small charter schools are at greater risk for financial difficulty.

Charter schools administered by education management organizations have a high prevalence of financial deficits. Many of the charter schools operating with end-of-year unreserved fund balance deficits are run by educational management organizations, which are private companies that own and/or manage charter schools, usually for a profit. Of the 62 Florida charter schools with end-of-year unreserved fund balance deficits in 2002-03, almost half (47%) were administered by these organizations. In contrast, only 22% of Florida's 222 charter schools are administered by these organizations.

It is unclear why charter schools administered by educational management organizations have a high rate of year-end reserve fund balance deficits, as little information is collected statewide on their business arrangements. In January 2005, the Florida Senate Education Committee requested that the Department of Education monitor charter schools operated by these organizations more closely.

### ***Despite the financial difficulties of some charter schools, relatively few close each year***

Although many of Florida's charter schools face financial challenges, these problems result in only a few schools closing each year. In Fiscal Year 2003-04, only 8 charter schools closed in Florida, less than 3% of the total schools operating in the state. Since the inception of charter schools, 39 Florida charter schools have closed through the end of Fiscal Year 2003-04, representing 13% of the schools over this period. This is slightly higher than national average, as 9% (311) of charter schools operating across the country have closed since 1991.

Financial problems were the most frequently cited reason for the closure of Florida charter schools and were reported in 16 of the 39 schools that have closed since 1996. Other reasons that charter schools have closed include declining student enrollment, poor student performance, and lack of adequate facilities. Over one-half (22) of these schools were in their first two years of operation.

While relatively rare, charter school closings may have significant consequences for students, parents, and school districts. School closures can disrupt students' education and create challenges for districts which then must absorb students back into their schools and transportation system. The timing of charter school closure affects the magnitude of these changes. Fortunately, about two-thirds of the charter schools that have closed (26, or 66%) did so during summer months, which minimized the effects on parents and students. However, 13 schools have closed during a school year.

### ***Charter school financial information currently cannot be used for state and federal reports***

Although charter schools represent a growing percentage of Florida's public schools, the Department of Education is unable to include the annual expenditure data that charter schools submit to school districts in its annual reports on state educational expenditures. As a result, state reporting on the cost of education programs in Florida is under-represented by the cost of those programs in charter schools. This cost information is used to fulfill federal reporting requirements and establish the weighting for various components of the Florida Education Finance Program (FEFP).

Although state law requires charter schools to submit financial information to their school districts annually, school districts receive expenditure data in a variety of formats, making it difficult to interpret and use the information. For example, charter schools may combine several cost categories required by the school districts reporting standards into a single category or submit expenditures in inappropriate cost categories. School districts are unable to break this information out into the proper reporting categories for submission to the Department of Education. Also, although the Department of Education has developed an electronic annual financial report form that school districts complete each year, which enables the department to analyze and validate school districts' cost data, charter schools do not routinely submit required annual financial reports.

Due to these problems, the Department of Education has not been able to include the expenditures of charter schools in its annual education cost reports. While charter schools currently serve 3% of Florida's public students, this percentage is growing over time. Excluding data on educational expenditures for these students hinders the Legislature's and other policymakers' ability to assess how the state's limited resources are being used in the public school system.

### ***Several steps can be taken to improve the financial performance of charter schools***

Given charter schools' growing importance in the state's education system and the large numbers of such schools with potential financial problems, it is important for the state to have effective methods of assisting these schools. The Department of Education has taken some steps to help financially struggling charter schools. In the past year, the department has begun identifying charter schools with unreserved fund balance deficits and providing greater technical assistance to these schools and their sponsoring school districts. For example, the department has developed business plan guidelines for charter schools, budget worksheets, checklists to assist charter schools in preparing for an audit, and workshops addressing financial management.

However, the department could take additional steps to help new charter schools avoid financial problems in their first years of operation when they are at the most risk of such problems, as well as assisting schools that are experiencing financial difficulties. Therefore, we recommend that the Legislature consider clarifying the Department of Education's role in s.1002.33, *Florida Statutes*, to include the responsibilities described below.

- Ensuring that technical assistance on developing business plans and estimating costs and income is available and that prospective charter school operators are aware of the availability of this information. This information should include estimating start-up costs, projected enrollment, and the types and amounts of state and federal financial assistance the charter school will be eligible to receive.
- Ensuring that training and technical assistance is provided for charter school administrators in planning, budget, management, and financial reporting.
- Developing a monitoring system that includes a comprehensive list of financial indicators to be used for the early identification of charter schools at greatest risk for financial difficulty.

- Ensuring that training and technical assistance is provided to charter schools with deteriorating financial situations.
- Annually reporting those schools identified as being at risk for financial difficulty, using the financial indicators developed above, and the actions that the department and local school district have taken to assist each school.
- Developing a modified annual financial report for charter schools with additional guidelines for expenditure reporting, which would allow districts and the state to include charter school expenditures in their educational cost reports. The department should develop guidelines that identify district and department responsibilities for verifying the data in these reports. These guidelines should require charter school reports to be signed by the schools' chief financial officers and/or certified public accountants who prepares the reports.<sup>20</sup>
- requiring that, when a charter school is in such a deficit financial position, the charter school file a detailed financial recovery plan with the sponsoring district school board and that the Florida Department of Education establish guidelines relating to the content of such a plan.

## Agency Response

In accordance with the provisions of s. 11.51(6), *Florida Statutes*, a draft of our report was submitted to the Commissioner of the Department of Education for review and response.

The Commissioner's written response is reproduced in its entirety on page (Appendix C).

In addition, s. 218.39(5), *Florida Statutes*, requires the auditor of a local governmental entity or district school board to report if the entity is in a state of financial emergency as defined by s. 218.503, *Florida Statutes*, and to report on deteriorating financial conditions. However, there is no comparable requirement for charter schools. OPPAGA concurs with a previous recommendation made by the Auditor General's Office that the Legislature consider

- similar reporting provisions for the charter schools to require, at a minimum, that the school's financial officer or auditor notify the charter school governing board if there is a deficit financial position; and

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OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

**Florida Monitor:** [www.oppaga.state.fl.us](http://www.oppaga.state.fl.us)

Project supervised by David D. Summers (850/487-9257)

Project conducted by Kathleen Del Monte, Mark Frederick, Sarah Mendonça-McCoy, Mark West, and Ron Williams  
Jane Fletcher, Education Staff Director (850/487-9255)

Gary R. VanLandingham, OPPAGA Interim Director

## Appendix A

# Charter Schools by School District, 2004-05

The table below provides a list of the number of charter schools, the grade levels served, the number of students attending charter schools, and the percentage of public school students attending charter schools by school district. School districts with no charter schools in 2004-05 are not listed.

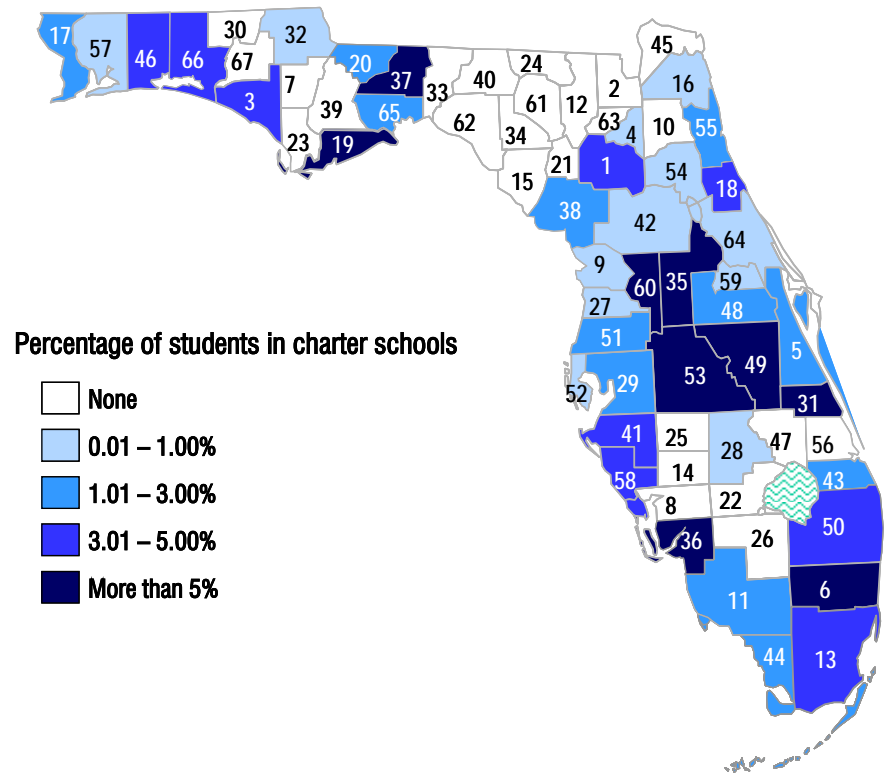
District	Number of Charter Schools	Charter School Grades Served	Number of Students	Percentage of District Students
Alachua	14	Kindergarten-12	1,228	4.22%
Bay	1	K-8	949	3.51%
Bradford	1	K-2	10	0.26%
Brevard	9	PreK-8	2,118	2.85%
Broward	26	PreK-12	14,262	5.21%
Citrus	1	10-12	39	0.25%
Collier	2	K-8	499	1.19%
Dade	40	K-12	13,866	3.79%
Duval	6	K-12	1,231	0.97%
Escambia	7	PreK-12	872	2.00%
Flagler	2	K-8	462	4.77%
Franklin	1	K-6	161	11.74%
Gadsden	1	PreK-8	165	2.48%
Hernando	1	6-8	109	0.53%
Highlands	1	2-6	53	0.44%
Hillsborough	21	K-12	3,224	1.71%
Indian River	5	K-12	927	5.43%
Jackson	1	K-3	15	0.20%
Lake	9	PreK-12	3,217	8.95%
Lee	7	PreK-12	3,882	5.49%
Leon	3	K-12	1,888	5.64%
Levy	2	K-12	185	2.96%
Manatee	7	K-12	1,843	4.49%
Marion	3	K-5	340	0.83%
Martin	2	PreK-1, 11-12	205	1.15%
Monroe	3	K-6	248	2.88%
Okaloosa	3	PreK-12	1,152	3.71%
Orange	16	PreK-12	2,968	1.72%
Osceola	11	PreK-12	4,110	8.68%
Palm Beach	35	PreK-12	7,388	4.24%
Pasco	5	K-12	920	1.52%
Pinellas	5	K-12	573	0.51%
Polk	24	PreK-12	8,864	10.30%
Putnam	1	2-3	56	0.45%
Santa Rosa	1	6-12	105	0.42%
Sarasota	8	K-12	1,808	4.39%
Seminole	3	PreK-8	609	0.92%
St. Johns	3	PreK-5, 9-12	472	1.94%
Sumter	3	K-11	1,467	20.54%
Volusia	3	PreK-5, 6-12	523	0.80%
Wakulla	1	K-8	94	1.94%
Walton	2	6-12	223	3.41%
<b>Statewide</b>	<b>300</b>	<b>PreK-12</b>	<b>83,330</b>	<b>3.16%</b>

Source: OPPAGA analysis of DOE data.

Appendix B

# Percentage of Students Served by Charter Schools by School District, 2004-05

The map below shows the percentage of public school students attending charter schools by school district. School districts with no charter school students are shown in white. The number in each school district is keyed to the county name below.



1 - Alachua	18- Flagler	35- Lake	52- Pinellas
2 - Baker	19- Franklin	36- Lee	53- Polk
3 - Bay	20- Gadsden	37- Leon	54- Putnam
4 - Bradford	21- Gilchrist	38- Levy	55- St. Johns
5 - Brevard	22- Glades	39- Liberty	56- St. Lucie
6 - Broward	23- Gulf	40- Madison	57- Santa Rosa
7 - Calhoun	24- Hamilton	41- Manatee	58- Sarasota
8 - Charlotte	25- Hardee	42- Marion	59- Seminole
9 - Citrus	26- Hendry	43- Martin	60- Sumter
10 - Clay	27- Hernando	44- Monroe	61- Suwannee
11 - Collier	28- Highlands	45- Nassau	62- Taylor
12 - Columbia	29- Hillsborough	46- Okaloosa	63- Union
13 - Dade	30- Holmes	47- Okeechobee	64- Volusia
14 - DeSoto	31- Indian River	48- Orange	65- Wakulla
15 - Dixie	32- Jackson	49- Osceola	66- Walton
16 - Duval	33- Jefferson	50- Palm Beach	67- Washington
17 - Escambia	34- Lafayette	51- Pasco	

## Appendix C

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# FLORIDA DEPARTMENT OF EDUCATION

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John L. Winn  
Commissioner of Education



March 1, 2005

Mr. Gary R. VanLandingham, Interim Director  
Office of Program Policy Analysis and Government Accountability  
111 West Madison Street, Suite 312  
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Thank you for the opportunity to review and respond to the OPPAGA report regarding charter schools, *Charter School Application Requirements are Reasonable; Financial Management Problematic*. As one of Florida's fastest growing choice options, charter schools have a key role in helping to accomplish the State Board of Education's imperative to increase the quantity and improve the quality of education options for Florida's students and their parents. Since Florida's charter school legislation was enacted in 1996, one of the goals of the Department of Education has been to support and help build the infrastructure necessary to ensure that all Florida charter schools have every opportunity to excel.

We concur with the report's assessment that it is essential to help charter schools avoid financial problems and to identify and provide assistance to those that are facing financial difficulties. Sound financial management is an integral factor in the operation of a high quality charter school and the Department takes a very serious position on all aspects of financial accountability.

Over the past year, the Department has taken numerous steps to help ensure fiscal soundness and accountability for charter schools, including increased technical assistance documents, on-site visits focused on corrective action planning, and specialized training and workshops for prospective, new and existing schools. Additionally, the Department supports and works closely with the Florida Charter School Resource Center to provide intensive training and one-on-one technical assistance to charter schools throughout the state in all areas of fiscal management and operations. In 2004, the Department revised charter school annual reporting to require submission of audited financial statements along with each school's required annual report and corrective action plan.

Mr. Gary VanLandingham  
March 1, 2005  
Page 2

While we agree that the Department has a key role in helping charter schools avoid financial problems, we believe the primary and most effective approach to fiscal accountability is for charter schools and school districts to assume a more collaborative responsibility for ensuring financial and student accountability for charter schools. It does not seem reasonable to create new statutorily directed responsibilities and an increased workload for the Department of Education because some school districts are not complying with the law. More appropriate and reasonable recommendations should focus on directing and holding charter school sponsors accountable for complying with the law and supporting charter schools as intended by the Legislature. The burden should not be shifted to the Department of Education. The Department's position in regards to OPPAGA's recommendations is codified in its proposed charter school legislation. As part of the State Board of Education's legislative agenda for 2005, the Department has worked with legislative staff to draft language that will further clarify and align charter school and school district responsibilities related to financial accountability, corrective action plans, and follow-up reporting.

The Department of Education is committed to providing continued support to expand the number and improve the quality of charter schools in our state. We appreciate the feedback received as a result of OPPAGA's review of charter schools and look forward to working with you toward ensuring state, district, and school responsibilities for improved fiscal and student accountability.

Sincerely,

/s/  
John L. Winn  
Commissioner

JW/pm

c: Phil Handy  
John Franco  
Jeanine Blomberg  
Jim Warford