

A TEACHABLE MOMENT

*Understanding the Complexities of
Charter School Financing in Milwaukee*



WISCONSIN

POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. The Wisconsin Policy Forum is committed to those same activities and to that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide Wisconsin's policymakers and education stakeholders with objective information about charter school financing, a complex but critical component of Milwaukee's K-12 education landscape. We hope that by shedding light on issues surrounding the financial aspects of chartering schools both in Milwaukee and statewide, this research also will help orient policy discussions around how charter schools can produce outcomes that best serve Milwaukee's children.

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INTRODUCTION

Milwaukee's system of K-12 public education is distinct from many other urban school systems in the degree of educational choices offered to students and their families. Past Wisconsin Policy Forum research has addressed the growth in schooling options for K-12 students in Milwaukee, which include an array of Milwaukee Public Schools (MPS) neighborhood and specialty schools; dozens of public charter schools; private schools through the state's parental choice programs; and even suburban schools through open enrollment.¹

This range of options has fostered intense competition among Milwaukee's K-12 schools over the past decade. While enrollment in traditional MPS schools has fallen overall since 2009-10, charter schools have seen more stability, and private schools accepting vouchers have grown substantially. Meanwhile, the decline in school-aged children in Milwaukee and the declining birth rate statewide² may intensify this competition as the stream of students attending Milwaukee's schools continues to narrow.

Because enrollment is the primary driver of Wisconsin's system of funding K-12 schools, a shrinking student population is one of the foremost financial challenges MPS faces. In a 2012 analysis of MPS' fiscal condition,³ we noted that one of the strategies MPS had adopted to help stabilize its enrollment – and the revenue streams attached to it – was to increase the pace at which it was establishing its own charter schools. Since that time, however, the district's efforts to establish or expand charter schools have faced occasional opposition from both internal and external MPS stakeholders. This resistance has stemmed, in part, from perceptions regarding the manner in which MPS funds its charter schools.

In this report, we intend to provide clarity and lend an objective voice to the facts surrounding the financial relationship between Milwaukee's charter schools and their authorizers. Specifically, we seek to answer the following questions:

- *What is the process and methodology under which schools chartered by MPS receive their funding, and how does this compare to the process employed by Milwaukee's two other charter school authorizers – University of Wisconsin–Milwaukee (UWM) and the City of Milwaukee?*
- *What are the financial impacts for both MPS and its charter schools when they elect to contract with each other?*
- *What are the legal, fiscal, and administrative frameworks surrounding charter schools in comparable states and school districts?*
- *What potential policy changes should policymakers in Milwaukee and Madison consider to improve charter school funding policies?*

Information and data supporting this research came primarily from information requests and key informant interviews with officials from all three active charter school authorizers in Milwaukee – MPS, UWM, and the City of Milwaukee. We also spoke with representatives from MPS charter schools and subject matter experts who provided valuable perspective on charter schools locally and nationally.

It is important to note that this report is concerned strictly with the **fiscal aspects** of charter schools in Milwaukee in response to the lack of understanding we have observed about charter school funding policies and the impact of chartering decisions on MPS' fiscal condition. **This report does not address the merits of charter schools as a sector or the educational performance of individual charter schools.**

We hope this report brings valuable insight and clarity to policy discussions surrounding the financial context and impact of charter schools in Milwaukee and Wisconsin.

CHARTER SCHOOL LANDSCAPE

Wisconsin was among the first states to pass enabling legislation to create charter schools, with legislation adopted in 1993⁴ laying out the legal framework for charter school creation, operations, and funding. Initially, the law authorized only 10 school districts to establish two charter schools each. Since that time, revisions have given school districts statewide unlimited chartering authority and established an independent charter school program, which expanded the number and types of entities that are allowed to authorize charter schools.⁵

WHAT IS A CHARTER SCHOOL?

In Wisconsin, a charter school is a public school established by a school district or through a contract between the charter school's independent governing body and a school board or other public chartering authorizer.⁶ The primary distinction between charter schools and traditional public schools is that Wisconsin's charter law gives charter schools freedom to develop their mission, educational program, organizational structure, and operations (including staffing and budgeting) without being subject to most state statutes and rules governing K-12 education. In exchange for this flexibility, charter schools agree to be held accountable to the public –through their authorizer – for academic, organizational, and financial performance.

Charter schools can be governed internally either by a school district or by a nonprofit board of directors. Those governed by a nonprofit board generally file for tax exempt status under 501(c)(3) of the IRS code, which makes key financial information a matter of public record. In addition, as public schools, charter schools may not charge tuition and are required to be nonsectarian; adhere to authorizer rules and policies; be subject to federal laws governing civil rights, discrimination, and labor standards; and follow state laws surrounding instructional staff licensing for charter schools and the Wisconsin Public Records Law.

WHO CAN AUTHORIZE THE CREATION OF CHARTER SCHOOLS?

All public school districts in Wisconsin can authorize charter schools. District-sponsored charter schools can be structured as instrumentalities of the school district, meaning the district employs their faculty and staff; or they can be non-instrumentalities, which means the school hires their own staff as non-district employees. Non-instrumentality charter schools are operated and governed by an independent governing board, though that board is accountable to the district's school board.

Wisconsin law also has expanded chartering authority to a number of legal entities outside of K-12 school districts to establish independent charter schools (these schools sometimes are referred to as 2r or 2x charter schools after the subsection of the statute that defines them). These include the City of Milwaukee, the Waukesha County Executive, the College of Menominee Nation, the Lac Courte Oreilles Ojibwa Community College, the University of Wisconsin System Office of Educational Opportunity, the chancellor of any University of Wisconsin System institution, and each technical college district board in Wisconsin.

ARE CHARTER SCHOOLS BECOMING A BIGGER PART OF THE LANDSCAPE?

Wisconsin's charter school sector has grown in the past decade, from 206 schools serving about 36,000 students in 2009-10 to 231 charter schools enrolling 42,499 students in 2017-18.

However, the number of charter schools and their enrollment have declined more recently from a high of 242 schools and more than 47,000 students in 2013-14.⁷ Ninety-eight school districts statewide included charter schools in 2017-18, the vast majority of which were instrumentality charter schools. There are only 23 independent charter schools statewide, most of which are in Milwaukee.⁸

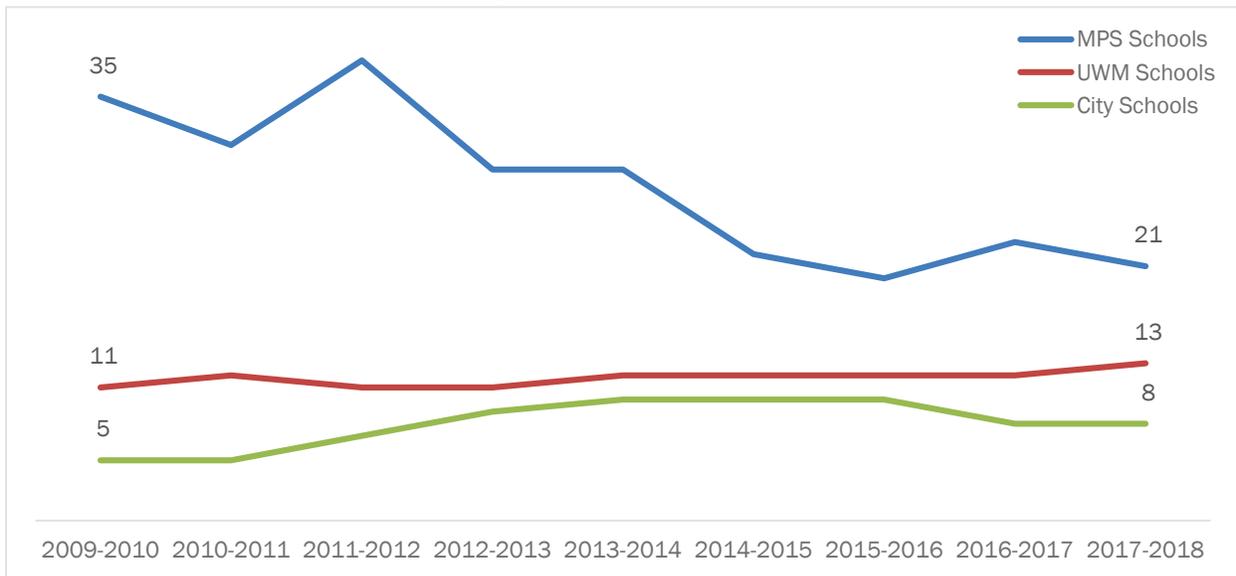
Five entities can authorize charter schools in Milwaukee: MPS, UWM, the City of Milwaukee, Milwaukee Area Technical College (MATC), and the Office of Educational Opportunity (OEO) housed within the University of Wisconsin System (established in the 2015-17 state budget). To date, neither MATC nor the OEO has exercised their authority in Milwaukee, leaving Milwaukee with three active authorizers.

As of 2017-18, Milwaukee had 42 charter schools. MPS oversaw half of those, five of which were instrumentality charter schools and 16 of which were non-instrumentality charter schools. Thirteen of the remaining schools were independent charter schools authorized through UWM, and eight were City of Milwaukee charter schools.

As indicated in the following charts, Milwaukee's charter sector exhibited an upward trend similar to Wisconsin's in both the number of charter schools and their enrollment between 2009-10 and 2013-14, at which point both measures have gradually fallen. As of 2017-18, 16,778 students were enrolled in 42 charter schools in Milwaukee, down from more than 19,000 students in 51 schools in 2013-14.

Chart 1 (on the following page) breaks down these trends by authorizer and shows a precipitous drop in the net number of MPS charter schools, from 35 in 2009-10 to 21 in 2017-18. Underlying this trend is a net drop over the same time period of 21 instrumentality charter schools (some of which reverted to traditional district schools) and an increase of seven non-instrumentality schools. Charter schools under the authority of UWM and the City are much fewer, but their numbers have remained relatively steady over the past decade.

Chart 1: Charter schools in Milwaukee by authorizer



Source: Wisconsin Department of Public Instruction

Enrollment trends follow similar patterns. As indicated in **Chart 2** (on the following page), since 2009-10, enrollment in all MPS charter schools (both instrumentality and non-instrumentality) showed some volatility but decreased overall by about 11%. Meanwhile, UWM and City of Milwaukee charter school enrollment increased by about 12% and 57%, respectively.

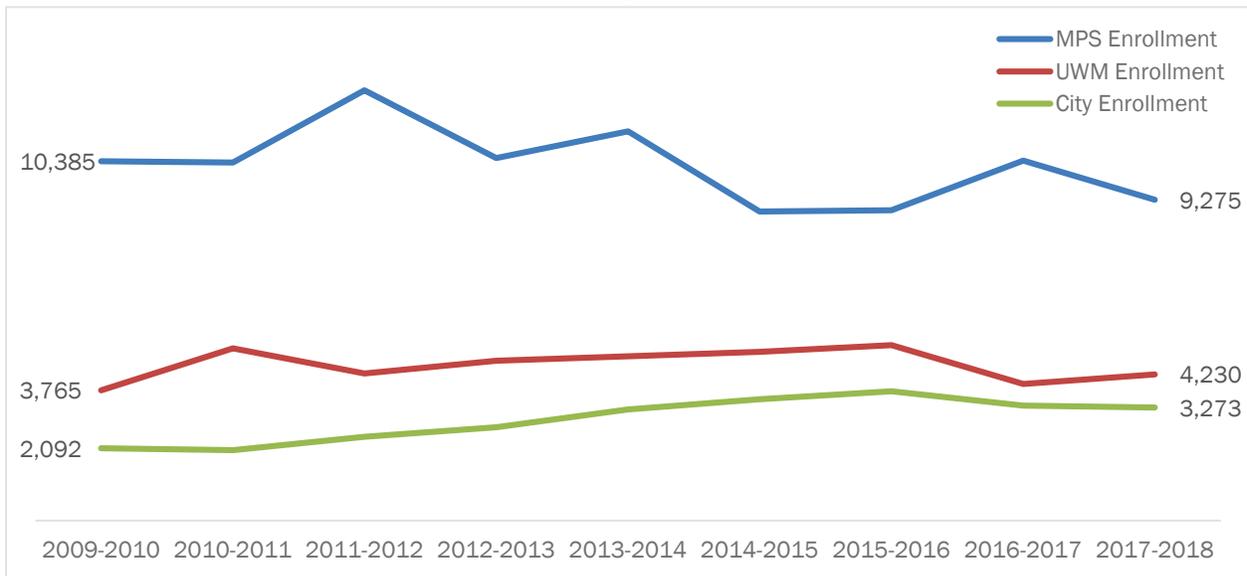
Aligned with the previously noted change in the number of MPS instrumentality and non-instrumentality charter schools during this period, enrollment in instrumentality charter schools dropped by 80%, while enrollment in non-instrumentality charter schools surged by 250%.

Overall MPS charter school enrollment did climb to more than 12,439 students in 2011-12, but dropped to just over 10,000 in 2016-17. The downward trend continued in 2017-18, when enrollment in MPS charter schools decreased to 9,275 students, driven in large part by the termination of two charter schools' contracts by mutual agreement in 2016-17.

During the same timeframe, UWM and the City of Milwaukee saw an upward trend until 2015-16, at which point they too saw relatively steady enrollment declines.

Meanwhile, according to a *Milwaukee Journal Sentinel* analysis⁹ using a slightly different timeframe, enrollment of Milwaukee students in private schools using taxpayer-funded vouchers grew dramatically in the decade between 2008-09 and 2017-18, from about 20,000 students in 2008-09 to over 28,000 in 2017-18, a growth rate of 42%. Against this backdrop, enrollment in traditional MPS schools has been falling steadily and is down almost 15% since 2008-09 (from about 80,000 students to 67,000).

Chart 2: Charter school enrollment in Milwaukee by authorizer



Source: Wisconsin Department of Public Instruction

WHAT DOES THIS MEAN FOR MPS?

These trends illustrate the growing range of educational options available to families in Milwaukee and the competitive pressures under which MPS operates. Moreover, they raise key policy questions for MPS. Is there a rationale for MPS to expand its charter school footprint? Would such a policy advance the district's aim to retain and attract students, thereby stabilizing its enrollment? Would such an outcome be financially advantageous for the district?

A recent \$95 million, five-year federal charter school expansion grant to the State of Wisconsin underscores the need for the district to address these questions. One of MPS' non-instrumentality charter schools already has received a \$750,000 grant to expand its program during the 2018-19 school year. At the same time, four other Milwaukee charter schools – three chartered by UWM and one by the City – also won expansion grants of similar magnitude.¹⁰

For MPS, the decision on whether to actively compete for these grants and to otherwise seek to bolster and expand its charter school portfolio is not clear cut. On the one hand, such a strategy could draw students away from competitors, which would increase MPS revenues from a portion of state and local funds tied to enrollment. On the other hand, it could pull students from traditional MPS schools, which could reduce the amount of funding over which MPS has considerable discretion because it would shift more dollars to charter school operators.

In the following sections, we explore in depth the potential financial impacts of an MPS policy to expand charter school enrollment and seek to answer other questions regarding charter school financing in the city.

CHARTER SCHOOL PROCESS & FUNDING

We begin our analysis by comparing the process and methodology that govern how charter schools are established, renewed, and funded by Milwaukee's three charter school authorizers. First, we provide some context and background. Next we describe processes and funding approaches for each of the three active authorizers in Milwaukee.

BACKGROUND

Establishing or renewing a charter school

State law encourages all charter school authorizers to adhere to national best practices promoted by the National Association of Charter School Authorizers, the core principles of which are to “maintain high standards for schools, uphold school autonomy, and protect student and public interests.”¹¹

Because the general process to establish a new charter school is guided by state law, it is similar across all chartering entities. Toward the beginning of the year before a prospective charter school operator hopes to open its doors, that entity must submit an application to the authorizer that explains the school's proposed governance structure, budget, admission and discipline policies, educational program, and performance measurement and accountability plan. Applications initially are assessed by an advisory or review panel that then makes a recommendation whether to approve the proposal to the entity's top governance body (i.e., the Milwaukee Board of School Directors, the UWM Chancellor and UW-System Board of Regents, or the City of Milwaukee Common Council).

Once a charter school's proposal is approved, the charter school operator and the authorizer negotiate the terms of the charter contract. All three authorizers begin the process with a model contract that outlines the legal, financial, and performance responsibilities of both the charter school operator and the authorizer. All three authorizers also follow established monitoring, evaluation, and renewal processes that incorporate financial and educational performance metrics into the renewal proceedings.

Funding charter schools

In Wisconsin, federal and state education funding flows through the Wisconsin Department of Public Instruction (DPI) to each Local Education Agency (LEA). Both school districts and independent charter schools are considered LEAs, however district charter schools are not. In Milwaukee, this means that independent charter schools that are authorized under UWM or the City of Milwaukee act as their own LEA, and therefore, receive state and federal funding directly from DPI. For non-instrumentality charter schools, these funds flow through MPS.

Wisconsin's 2017-19 budget specifies that independent charter schools were to receive \$8,395 per pupil for the 2017-18 school year.¹² That amount is in addition to special purpose state and federal categorical aids for which independent charter schools are eligible, such as for special education

under the federal Individuals with Disabilities Education Act (IDEA) or for low-income students under The Elementary and Secondary Education Act Title I. Administrative fees charged by the charter authorizer are paid directly by the independent charter schools out of their state and federal funding allotments and other sources of income.

The funding process is different for district charter schools. In their case, the school district is the LEA, which means it receives and distributes state-allocated funds across the district and to each of its schools, both traditional and charter. As an LEA, the district is responsible for ensuring state and federal monies are allocated according to state and federal laws and rules. This is especially true for categorical aids such as those LEAs receive through Title I and IDEA. Once they have met all compliance requirements regarding how such monies must be spent, districts have discretion over the methodology used to determine the portion of each state and federal funding source that will be allocated centrally versus distributed to individual schools (both traditional and charter).

Wisconsin law does not guarantee access to or funding for facilities for charter schools. In practice, this means charter schools must lease, purchase, or build their own facilities with the operations revenues they receive from the state and any other funding they procure by other means. Notably, this is an expense for which school districts generally do not have to budget using operating funds – they have capital budgets for such expenses and they customarily finance them through bonding. One advantage to chartering with MPS is that the district provides its charter schools access to district-owned school buildings and facilities through lease or purchase agreements (access not extended to non-MPS charter schools). However, MPS charter schools, like independent charter schools, pay their authorizer (MPS) for the use of those facilities.

We explain these and other distinctions between the authorizers in further detail below and in the following section analyzing the financial impacts of the MPS-non-instrumentality charter school relationship.

MILWAUKEE PUBLIC SCHOOLS

Establishing a charter school

MPS maintains an administrative policy¹³ that lays out the district’s legal authority to charter schools, defines MPS charter schools, and outlines how an MPS charter school is established. The policy also describes the board’s preference to approve charter school proposals that address one or more of the following priorities: provide high-quality, innovative programs for traditionally underserved or at risk students; reduce or re-enter student dropouts; and extend autonomy to schools and programs that improve student achievement.

The application process can begin with the Board considering external proposals or with a request by a group of MPS teachers to convert an existing district school into a charter school. Proposers indicate whether or not they intend to operate as an instrumentality of MPS. Applications are reviewed by the MPS Charter School Review Panel (appointed by the school board and the superintendent), which recommends to the Board of School Directors whether to grant or deny a proposal. For non-instrumentality charter schools (NIC schools), the Board must hold a public hearing

30 days before entering into the contract with the school. New charter school contracts generally are approved for five years.

Monitoring, oversight, and renewal

Because MPS performs the duties of the LEA for its charter schools, it ensures compliance with all state and federal laws, codes, rules, and regulations pertaining to LEAs. The district conducts performance and compliance audits annually. Non-instrumentality charter schools, at their own expense, also submit annual financial and performance audits to the district. The fact that MPS assumes added responsibility and incurs higher administrative costs on behalf of its charter schools than other authorizers – which do not act as the LEA – often is cited as justification for its comparably higher standard administrative fees (discussed below).

In the last year of the contract term, schools can apply for renewal, at which point a charter school contract review team will analyze data and conduct site visits that consider the school’s performance relative to educational, financial, and organizational performance standards. Based on its findings, the review team makes a recommendation to the school board as to whether to renew the contract and whether to do so for up to five years.¹⁴

Funding

The funding methodology established by MPS administrative policy for instrumentality charter schools differs from that of NIC schools. Instrumentality charter schools are funded in a similar manner as traditional MPS schools. Conversely, NIC schools are guaranteed a base per pupil funding amount that matches the level the state guarantees for independent charter schools (\$8,395 in 2017-18). Administrative charges are deducted from this amount. Effectively, this means that NIC schools receive the same amount in general per-pupil operating funding as do independent charter schools under UWM or the City of Milwaukee, though administrative charges differ.

According to MPS-charter contracts, in addition to this net per pupil payment, NIC schools also receive state or federal categorical aids through MPS (as their LEA). MPS first retains a portion of those funds for both administrative costs and centralized district programming, subject to state and federal compliance rules. This is a point of some contention that will be discussed in greater detail later in this report. One distinction between MPS and independent authorizers is that MPS is able to provide a large portion of a school’s per pupil payments (40%) before the school year begins (usually in July), whereas schools authorized under UWM or the City customarily must wait until September. For federal categorical aids, independent charter schools receive reimbursement directly from the federal government once their funding application is approved. In consultation with MPS’ NIC schools, MPS reimburses its charter schools for federal categorical aids (principally, Title I funds) three times per year.

Finally, contracts between MPS and some NIC schools also include special provisions for supplemental payments. We describe in greater depth the details surrounding the financial relationship between MPS and its NIC schools in the next section.

Administrative fees and services

MPS, like UWM and the City of Milwaukee, charges its charter schools an administrative fee intended to defray the district's administrative and oversight costs. The standard fee for NIC schools is 3% of the school's total per pupil payment. However, three charter school operators operate under a lower negotiated rate: Carmen and Milwaukee College Preparatory each pay 1% of their per pupil payments from MPS, while La Causa pays a 2% fee (as of 2017-18).ⁱ

As a large public school district, MPS has the infrastructure to provide a number of administrative services to its NIC schools that the other two authorizers cannot provide for their independent charter schools. While many of these services are covered under the administrative fee, MPS argues that some additional services are offered for no additional fee or represent costs the district incurs on behalf of the NIC school but does not pass on to the NIC school through additional fees or "hold backs." The district also makes a third category of services available to NIC schools under which it charges schools that opt to purchase them at the district's costs. Following is a brief overview of these three categories of administrative services (and related costs incurred) that MPS provides to its NIC schools.

Standard administrative and oversight services and costs

A portion of MPS' administrative fees support the salaries and benefits of the district's department of contracted school services, whose oversight, compliance, and performance evaluation functions compare closely to the administrative services Milwaukee's other two charter school authorizers perform. Among its functions, the department provides assistance and support to charter schools and acts as a liaison with other MPS departments, oversees the district's own review of the financial and performance audits schools are required to undergo, conducts performance reviews and monitoring, and administers application and renewal processes.

Services provided or costs incurred by MPS at no extra charge to NIC schools

According to MPS officials, administrative fees also include direct service or overhead support from a number of other MPS offices and departments that serve all schools. Where applicable, MPS contends that it incurs costs or provides support services to charter schools in areas such as finance, human resources, school nutrition, curriculum and instruction, specialized services (special education), technology, transportation, facilities and maintenance, and central office hearings for discipline. (Charter school leaders with whom we spoke say they receive only minimal benefit from some of these services, however.)

One such service is provision of or reimbursement for school meals. According to MPS officials, schools that opt to have MPS provide meals receive the service free of charge, as MPS is reimbursed for those costs through the Community Eligibility Provision of the National School Lunch Program.¹⁵ For schools that opt to provide meals themselves, MPS states that it passes through its federal

ⁱ As a result of Milwaukee Board of School Directors proceedings in June 2018, one additional school, Hmong American Peace Academy, negotiated a 1% administrative fee in its new charter contract with MPS that will go into effect for the 2018-19 school year.

reimbursement to the school. One charter operator stated, however, that in schools that do not operate in MPS buildings, the school only receives reimbursement for the cost of meals, and not for the costs of the preparers and servers.

Services for students with disabilities follow a similar process. Schools have the option of providing special education services to their students themselves, in which case MPS would pass through per-pupil state and federal reimbursement monies to the school. Or the school can opt to have MPS provide such services at the levels they provide for students in traditional MPS schools. Our interviews with MPS and charter school officials revealed some disagreement as to whether MPS provides the same level of special education support and/or funding to NIC schools as it does for internal district schools.

In addition, MPS administers various federal monies that support low-income students at NIC schools as well as state aid for NIC summer school enrollment and library resources. Both MPS officials and MPS-NIC charter contracts indicate that the district funds NIC schools for these aids on the same basis as it does for district schools. For example, depending on their enrollment of low-income students, NIC schools may be eligible for Title I monies. MPS officials state that the district charges administrative costs to Title I reimbursements. The remaining funds are allocated to schools (be they NIC schools, instrumentality charter schools, or other public schools) based on a formula that takes into account a school's percentage of students living in poverty.

Charter leaders have challenged this methodology by saying the administrative costs applied to Title I monies before school allocations also include costs for district-wide programming. They contend that such centralized district programming is not designed or delivered specifically for the students attending NIC schools (for example, NIC schools hire their own staff to serve the specific needs of their low-income students).

MPS officials cite the following additional services that NIC schools may access without additional charges: the district's student information system, education intervention software licenses, enrollment fairs, communications, and crisis support. The extent to which NIC schools, given their independent educational programming and administrative structures, value or take advantage of such services is unclear.

Optional services offered to NIC schools at the district's cost

Finally, MPS offers some services that NIC schools have the option of purchasing from the district at the district's cost. For example, NIC schools can opt to pay MPS to have their financial and/or performance audits performed by the MPS Office of Board Governance. Additionally, NIC schools can purchase additional special education services over and above what MPS provides to all schools.

MPS documents indicate that the district also offers student transportation services to charter schools. District officials state that NIC schools wishing to provide transportation to their students can partner with MPS to purchase yellow bus services or MCTS bus passes and do not have to negotiate directly with transportation providers. Also, because NIC schools are charged by MPS per its cost, they may benefit from lower negotiated rates based on the district's large volume of purchased transportation services. It is important to note that both independent charter schools and

school districts, in their capacity as LEAs, have direct access to state transportation categorical aid for each student transported based on distance traveled.¹⁶

NIC schools, however, do not have direct access to state transportation funds, either for regular or special education students, and some have stated they do not receive transportation service or aid from MPS. This issue presents another point of contention between MPS and NIC operators with whom we spoke. We were not able to verify whether MPS receives state transportation aid for NIC school students, and if so whether those monies are used for the district's transportation needs or passed through to NIC schools.

Facilities

One of the distinctions between NIC schools and instrumentality charter schools is that, by MPS board policy, instrumentality charter schools must operate in an MPS building. NIC schools are not required to do so, although any charter school operator that wishes to use an MPS building must be chartered by the district.

As such, ready access to facilities that were designed for K-12 education represents one of the foremost advantages of chartering with MPS. This may be especially true for high school charter school operators, which likely would find it more difficult than elementary school operators to convert non-educational spaces to meet their instructional needs. Some might assert that the requirement to charter with MPS to gain access to MPS facilities erects a barrier to entry for would-be school operators that prefer to charter under another authorizer.

As of the 2017-18 school year, five NIC school operators were parties to agreements to lease MPS facilities.ⁱⁱ According to MPS officials, district policy for establishing facility lease rates is based on the following:

- Charges for infrastructure costs (i.e., routine repairs): \$1.00 per square foot
- Charges for capital maintenance (i.e., major maintenance or replacement): \$1.50 per square foot
- Charges for any capital alterations the school wants to install: 100% paid by school
- Charges for building operations (e.g., trash/recycling, security): Rates depend on the size of building/staffing needed
- Charges for utilities: NIC schools are charged 40% of a building's utilities cost. This figure is based on an assumption that the district would incur 60% of the cost of a given facility if it was vacant.

For NIC schools that do not use MPS facilities, the district's contracted schools services department evaluates whether the facility complies with MPS standards for safety, security, and asbestos management.

ⁱⁱ The five NIC school operators that lease school facilities from MPS are Carmen, Hmong American Peace Academy, Milwaukee Environmental Science Academy, Milwaukee Excellence Charter School, and Next Door (for its Head Start program only).

For MPS, extending access to district facilities only to schools that select MPS as their authorizer provides a competitive advantage that ostensibly helps stabilize MPS enrollment by discouraging schools from contracting with other authorizers.

However, facility lease agreements and renewals between MPS and NIC schools have sparked heated debate over the past several years. In practical terms, NIC schools who lease MPS facilities essentially are paying MPS out of their per-pupil payment from MPS. Even so, some stakeholders believe NIC schools are not paying their fair share for access to MPS facilities, while others believe they are paying too much to use otherwise underutilized facilities that constitute City-owned property for which Milwaukee taxpayers already have paid.

One of the reasons these disagreements may persist is that establishing “fair market value” for school buildings is difficult because there are so few on the market to generate a large enough pool of comparable properties. Another factor that could be inflaming such disagreements is an apparent lack of uniformity in the methodologies used to establish MPS-NIC school lease agreements. Although MPS officials outlined the lease rate methodology described above, final lease terms, including price and square footage, are the result of negotiations between the charter school operator and MPS, resulting in non-standard lease agreements across school operators that lack transparency in terms of the methodology used to arrive at final terms.

Adding fuel to these debates are arguments by some charter school operators that the buildings MPS provides are in disrepair and that the maintenance services MPS performs are not adequate to justify the payments the schools are making under their lease agreements.

UNIVERSITY OF WISCONSIN-MILWAUKEE

Establishing a charter school

UWM conducts its charter school application process in two steps. The first is to submit a prospectus to the UWM Office of Charter Schools (housed in its School of Education) in February of the year before the school is proposing to open. The prospectus is reviewed by an advisory committee. If invited, the applicant submits a full application, due in August. The application review committee, which includes the advisory committee, faculty members from outside the School of Education, and community members, considers whether to recommend approval to the UWM Chancellor. The review committee bases its recommendations on the likelihood that a potential charter school would promote high student achievement; address the needs of students, their families, and staff; and reflect a sound organizational foundation based on finances, governance, and management. Once the Chancellor approves the application, contract negotiations begin. The negotiated contract ultimately must be approved by the UW-System Board of Regents.

Monitoring, oversight, and renewal

UWM Office of Charter Schools staff carry out the office’s oversight responsibilities through site visits, meetings with school leadership, and classroom observations. In addition, the charter school must submit audited financial statements each year, which are then reviewed by the UWM director of audit services. Finally, UWM implemented a new rubric in 2016-17 called the Performance



Framework for evaluating its charter schools. The framework includes academic, financial, and organizational metrics and forms the basis for annual evaluations and renewal decisions.

Administrative fees and services

UWM's model charter contract states it will charge administrative fees not to exceed 3% to cover the university's direct and indirect costs of administering a charter school contract. In recent years, however, the university has charged an administrative fee of approximately 1.7% of the schools' state per-pupil funding. UWM itemizes its actual administrative costs and returns any unused portion of the fee to the charter schools each year. According to UWM, the administrative fee charged to charter schools covers an annual audit of the Office of Charter Schools as well as its salaries, fringe benefits, professional development, office space at the university, and phones.

CITY OF MILWAUKEE/MILWAUKEE COMMON COUNCIL

Establishing a charter school

The Milwaukee Common Council established a Charter School Review Committee by ordinance¹⁷ and charged it to establish and regulate charter schools. With administrative support provided by the Institute for the Transformation of Learning at Marquette University, the seven-member committee is comprised of common council appointees, mayoral appointees, the city comptroller, and other education and community stakeholders. Among its duties, the committee is charged with establishing criteria by which charter school applications are evaluated; making recommendations to the common council regarding approval or revocation of charters; and evaluating, monitoring, and auditing the financial, educational, and organizational status of charter schools.

Monitoring, oversight, and renewal

Like the charter monitoring bodies under MPS and UWM, Milwaukee's Charter School Review Committee oversees both financial and programmatic monitoring. The committee contracts with outside consultants to conduct both annual financial audits and audits related to academic performance. In 2012, the Charter School Review Committee established a scorecard and rating scale to annually assess charter school academic performance and help guide committee decisions about charter school renewal and probation decisions.¹⁸

Administrative fees and services

The City of Milwaukee charges its charter schools an annual fee of between 2% to 2.5% of its state per-pupil funding to cover annual audits of charter schools, meeting costs, and other operational costs.

FINANCIAL IMPACTS FOR MPS AND NON-INSTRUMENTALITY CHARTER SCHOOLS

As previously discussed, MPS NIC schools are independently operated public schools that contract with the district. This “arms-length” financial relationship differs considerably from that between the district and its instrumentality charter schools (as well as its traditional schools). The MPS-NIC financial relationship also differs from the relationship that exists between the two other Milwaukee authorizers and the independent schools they charter.

In this section, we further define and explain the financial relationship between MPS and its NIC schools, with an eye toward assessing the financial advantages and disadvantages associated with the district’s inclusion of NIC schools in its array of different school types.

PAYMENTS FROM MPS TO NON-INSTRUMENTALITY CHARTER SCHOOLS

The financial relationship negotiated between the district and its NIC schools involves three main components: a per-pupil payment for general operations; special negotiated additional payments (where applicable); and administrative fees. As previously noted, facility lease agreements also affect the financial relationship, but the following analysis omits those impacts because they only apply to five NIC school operators. As previously noted, NIC schools also receive state and federal categorical aids through MPS as their LEA. We further describe that relationship later in the section labeled “Budgetary impacts of NIC schools on MPS”.

Table 1 and **Table 2** lay out the payment framework for each of the NIC schools in the 2017-18 school year.ⁱⁱⁱ Below, we provide additional detail for each of the three main components.

Per-pupil payment

As shown in **Table 1** (on the following page), the primary transaction between MPS and its NIC schools is a payment by MPS of a uniform amount for each student enrolled in a NIC school. By district administrative policy, MPS pays its NIC schools the same per-pupil amount as state law guarantees to independent charter schools. For the 2017-18 school year, that amount is \$8,395 per pupil.^{iv}

ⁱⁱⁱ As previously described, MPS acts as the Local Education Agency (i.e., fiscal and legal compliance agent) for all of its schools, including traditional, instrumentality, and NIC schools. In this capacity, MPS receives a variety of special purpose state and federal categorical aids and allocates a portion of them to its schools. Although the manner in which these payments is made are part of the charter school contract, the conditions under which MPS receives the monies are practically determined by state and federal regulation. As currently written into MPS-NIC contracts, these payments are not subject to negotiations between the district and the charter operator. These tables also do not reflect any optional services NIC schools may elect to purchase from MPS through separate agreements.

^{iv} Students in four-year-old kindergarten are counted as 0.6 of a full time equivalent pupil.

Table 1: Enrollment and per-pupil payment from MPS to NIC schools, 2017-18

MPS non-instrumentality charter school	Enrollment (K4-12)	Enrollment (3-Yr-Old)	Enrollment (Total)	Per-pupil payment to NIC school (Per WI Act 59)	Standard gross payment to NIC school
Carmen – Consolidated (Carmen)	1,367.5		1,367.5	\$8,395	\$11,480,163
Highland Community (Highland)	365.0	42.5	407.5	\$8,395	\$3,064,175
Hmong American Peace Academy (HAPA)	1,537.9		1,537.9	\$8,395	\$12,910,671
Kathryn T Daniels	207.9		207.9	\$8,395	\$1,745,321
La Causa	764.8		764.8	\$8,395	\$6,420,496
Milwaukee College Preparatory (MCP)	1,924.3		1,924.3	\$8,395	\$16,154,499
Milwaukee Community Cyber HS (MCC)	187.5		187.5	\$8,395	\$1,574,063
Milwaukee Environmental Sciences (MES)	400.8		400.8	\$8,395	\$3,364,716
Milwaukee Excellence	232.0		232.0	\$8,395	\$1,947,640
Next Door	227.5		227.5	\$8,395	\$1,909,863
NOVA Tech	100.0		100.0	\$8,395	\$839,500
Total	7,315.2	42.5	7,357.7		\$61,411,104

Source: Milwaukee Public Schools

Special negotiated additional payments

Table 2 (on the following page) illustrates that three charter schools – Highland, Milwaukee College Preparatory, and Next Door – are budgeted to receive payments that supplement the standard per-pupil payment. These payments were established in contract negotiations between the two parties. The basis for each varies considerably and, as discussed below, may be predicated either on the types of students served or on meeting certain achievement performance measures.

Highland Community (a Montessori school) received an additional \$356,788 in 2017-18 through a long-standing special arrangement with MPS. From its inception as an MPS charter school, Highland has received the full per-pupil charter funding amount for each of its three-year-old kindergarten students. This constitutes a special funding status that, according to district officials, awards more funding for Highland’s three-year old students than is allocated for any other three-year-olds enrolled in MPS schools.

Milwaukee College Preparatory (MCP) negotiated a performance-based incentive payment arrangement to garner additional funding for the four campuses it operates through its five-year charter with MPS. MCP received an additional \$400 per pupil in 2016-17, the first year of a five-year contract, and is slated to earn progressively higher per-pupil incentive payments averaging \$650 over the five-year period. Such payments are predicated on MCP students meeting or exceeding district averages in terms of improvement in reading and math over the course of each school year. Budgeted incentive payments by MPS to MCP in 2017-18 totaled \$769,720. In fact, to date, Milwaukee College Preparatory has not received the \$769,720 cited in the table.

Next Door (a four- and five-year old kindergarten program) negotiated a similarly phased-in performance incentive structure whereby MPS agreed to pay progressively higher per-pupil incentive payments, starting with \$400 per pupil in 2016-17 and increasing to \$900 per pupil by 2020-21. Next Door will receive these incentives on the condition that its K5 students successfully demonstrate proficiency in early literacy upon entering 1st grade at MPS. Next Door was budgeted to receive an extra \$28,400 in 2017-18 as a result of this provision.

Table 2: Budgeted payments from MPS to NIC schools, 2017-18

MPS non-instrumentality charter school	Standard gross payment to NIC school	Special negotiated arrangement	Adjusted gross payment	Admin. fee (percent)	Admin. fee (amount)	Net payment to NIC school	Net payment per pupil
Carmen	\$11,480,163		\$11,480,163	1%	(\$114,802)	\$11,365,361	\$8,311
Highland	\$3,064,175	\$356,788	\$3,420,963	3%	(\$102,629)	\$3,318,334	\$8,143
HAPA	\$12,910,671		\$12,910,671	3%	(\$387,320)	\$12,523,350	\$8,143
Kathryn T Daniels	\$1,745,321		\$1,745,321	3%	(\$52,360)	\$1,692,961	\$8,143
La Causa	\$6,420,496		\$6,420,496	2%	(\$128,410)	\$6,292,086	\$8,227
MCP	\$16,154,499	\$769,720	\$16,924,219	1%	(\$169,242)	\$16,754,976	\$8,707
MCC	\$1,574,063		\$1,574,063	3%	(\$47,222)	\$1,526,841	\$8,143
MES	\$3,364,716		\$3,364,716	3%	(\$100,941)	\$3,263,775	\$8,143
Milwaukee Ex.	\$1,947,640		\$1,947,640	3%	(\$58,429)	\$1,889,211	\$8,143
Next Door	\$1,909,863	\$28,400	\$1,938,263	3%	(\$58,148)	\$1,880,115	\$8,264
NOVA Tech	\$839,500		\$839,500	3%	(\$25,185)	\$814,315	\$8,143
Total	\$61,411,104	\$1,154,908	\$62,566,012		(\$1,244,688)	\$61,321,324	
Average							\$8,228

Source: Milwaukee Public Schools

Administrative fee

As also shown in **Table 2**, MPS charges NIC schools an administrative fee of between 1% and 3%, with the percentage dictated by the agreement reached in contract negotiations. MPS applies this rate to the total gross payment to the school (including standard and special payments).

The administrative fee is intended to defray MPS' costs for oversight and administrative services that it provides to NIC schools as the authorizer and Local Education Agency (LEA). As the school's LEA, MPS is charged with ensuring compliance with all federal, state, and local laws and regulations, including acting as the fiscal agent for all state and federal funding sources. It is important to note that the administrative fee paid by NIC schools does not include the financial and performance audits they are required to submit to MPS.

Most schools are charged 3% of their gross payment for these oversight and compliance services. Exceptions to the 3% fee were provided to Carmen and MCP in 2017-18, both of which negotiated a 1% fee. The lower fee saved the two operators approximately \$230,000 and \$338,000, respectively. Another exception was provided to La Causa; its 2% fee rate produced a savings of about \$64,000.

On a per-pupil basis, MPS administrative fees range between about \$84 and \$252, averaging about \$169.

Table 2 shows that budgeted MPS payments to NIC schools in 2017-18 (net of administrative fees) totaled \$61,321,324, or an average of \$8,228 per NIC school student. Schools without negotiated arrangements that paid the 3% fee would have received a net \$8,143 per pupil. MCP, the only charter operator that negotiated *both* a special incentive payment and a 1% administrative fee, would have received \$8,707 per pupil. (As noted above, MCP has not actually received the budgeted special payment listed in **Table 2**.)

BUDGETARY IMPACTS OF NIC SCHOOLS ON MPS

Having outlined the process that determines the contract-driven funding NIC schools receive from MPS, we now turn to the manner in which MPS itself receives funding as a result of NIC enrollment. Similar to the previous table on NIC school funding levels, **Table 3** (on the following page) tracks the flow of the main categories of general operating monies from the state to MPS as a result of NIC school enrollment while taking into account each of the three main financial components of NIC school payments described above.^v

Revenue limit per pupil and per-pupil state categorical aid

For each enrolled MPS student (including NIC school students), MPS receives a per pupil amount known as the revenue limit per pupil. This is the main revenue source that funds K-12 education in school districts statewide. It consists primarily of a combination of state equalization aids (which vary inversely with the property wealth of a given community) and local property taxes. MPS' 2017-18 revenue limit per pupil was \$10,122.

These monies comprised 88% of the MPS school operations fund in the 2017-18 budget.¹⁹ Because this is the revenue source that historically has formed the backbone of K-12 education finance in Wisconsin and is almost entirely enrollment driven, this is the component of the MPS budget that is most directly affected by changes in NIC school enrollment.

The only other MPS revenue stream that is similarly affected by NIC enrollment is a relatively small and recently enacted addition to Wisconsin's K-12 education funding landscape – a state categorical aid that school districts receive on top of their revenue limit per pupil known as “per pupil aid” that

^v The calculations reflected in **Table 3** constitute a simplified model of the financial impact of NIC enrollment on MPS' annual budget. MPS receives a revenue limit per pupil amount (\$10,122 in 2017-18) based on a three-year rolling enrollment average equal to the sum of the third Friday in September student count and 40% of the summer school count, plus any special adjustments (such as for declining enrollment) to its revenue limit authority that result in additional aid. The 2017-18 revenue limit per pupil is based on overall district enrollment for the fiscal years 2014, 2015, and 2016. This enrollment average also is the basis for the per-pupil categorical aids MPS receives in addition to its revenue limit per pupil (\$450 in 2017-18). Meanwhile, the district pays its charter schools based on the school's current year charter enrollment. For the purposes of illustrating the conceptual impact on MPS of chartering NIC schools, this model assumes charter school enrollment remained constant at the 2017-18 levels reflected here for all three of the 2014-16 fiscal years. In reality, the financial impacts for MPS of a shift in enrollment in one year would take effect over a three-year period.

was established in the 2011-13 state budget at \$50 per pupil based on a district’s three-year rolling enrollment average. By 2017-18, this categorical aid source had grown to \$450 per pupil.²⁰

Table 3: Budgetary impact of NIC schools on MPS, 2017-18

MPS non-instrumentality charter school	MPS base operating revenue (per K4-12 pupil)*	MPS base operating revenue (Total)	Net amount MPS realizes BEFORE admin. fees/negotiated payments	Net amount MPS realizes BEFORE admin. fees/negotiated payments (per K4-12 pupil)	Net payment to NIC school	Net amount MPS realizes AFTER admin. fees/negotiated payments	Net amount MPS realizes AFTER admin. fees/negotiated payments (per pupil)
Carmen	\$10,572	\$14,456,841	\$2,976,678	\$2,177	\$11,365,361	\$3,091,480	\$2,261
Highland	\$10,572	\$3,858,681	\$794,506	\$2,177	\$3,318,334	\$540,348	\$1,326
HAPA	\$10,572	\$16,258,264	\$3,347,593	\$2,177	\$12,523,350	\$3,734,913	\$2,429
Kathryn T Daniels	\$10,572	\$2,197,863	\$452,542	\$2,177	\$1,692,961	\$504,902	\$2,429
La Causa	\$10,572	\$8,085,259	\$1,664,763	\$2,177	\$6,292,086	\$1,793,173	\$2,345
MCP	\$10,572	\$20,343,180	\$4,188,682	\$2,177	\$16,754,976	\$3,588,204	\$1,865
MCC	\$10,572	\$1,982,199	\$408,137	\$2,177	\$1,526,841	\$455,359	\$2,429
MES	\$10,572	\$4,237,149	\$872,433	\$2,177	\$3,263,775	\$973,375	\$2,429
Milwaukee Ex.	\$10,572	\$2,452,641	\$505,001	\$2,177	\$1,889,211	\$563,431	\$2,429
Next Door	\$10,572	\$2,405,069	\$495,206	\$2,177	\$1,880,115	\$524,954	\$2,307
NOVA Tech	\$10,572	\$1,057,173	\$217,673	\$2,177	\$814,315	\$242,858	\$2,429
Total		\$77,334,319	\$15,923,215		\$61,321,324	\$16,012,996	
Average							\$2,243

Source: Milwaukee Public Schools

* Our base operating revenue amount is the sum of 1) MPS’ \$10,122 per-pupil revenue limit in 2017-18; plus 2) \$450 in per-pupil categorical aid that MPS received in 2017-18, both of which were established in the 2017-19 state budget.

Table 3 shows how, combined, these two sources of aid provide MPS with \$10,572 per pupil. This amount, multiplied by the 2017-18 NIC school K4-12 enrollment total, results in a total of about \$77 million in what **Table 3** shows as “MPS base operating revenue.” This is the revenue amount MPS would have been allowed by the state (in a combination of state aids and local property tax) whether these students were enrolled in NIC schools or traditional district schools.

As calculated previously, MPS paid its NIC school operators a net amount of about \$61 million in 2017-18, or an average of \$8,228 per student.^{vi} Consequently, at first glance, it would appear that MPS retained about \$16 million, or an average of \$2,243 per pupil (about 21% of the amount the district receives for each NIC student). This average represents a range between \$1,326 and \$2,429, depending on the school and its specific fee and payment contract provisions.

^{vi} These payments show up in the MPS budget under “contracted services” or “purchased services,” which can create confusion and misunderstanding among key MPS stakeholders. Technically, they represent contractual payments to charter school operators, but they also could be viewed simply as per pupil funding allocations for NIC school students.



It should be noted, however, that if these were students attending district schools, MPS would have almost total discretion over how to allocate the full \$10,572 per pupil (or about \$77 million) to meet all of the district's operating costs, including those incurred for traditional schools, instrumentality charter schools, other school types, central school supports, other programming and services, administrative costs, infrastructure costs, and legacy expenses. In the case of NIC schools, however, MPS retains discretion only over the \$2,243 per pupil (\$16 million) that is not paid out to NIC schools.

Consequently, to the extent that one assumes MPS would otherwise be educating those same students in district schools, the district's decision to contract with NIC schools amounts to MPS effectively transferring to charter operators most of its spending discretion for the per pupil allocation amount. Conversely, if one presumes that those schools and students would not be part of the MPS system were it not for the initiative of the outside charter operator, then the MPS-NIC financial relationship could be viewed as giving MPS more than \$2,200 per pupil that it would not otherwise have to help defray centralized district-wide indirect costs. We explore these two points of view in further detail below.

Finally, it is important to note that in contracting with NIC schools, MPS avoids a variety of costs that it would otherwise incur if those same schools were district schools. Most notably, the district avoids having to recruit, hire, and provide HR and other indirect services for NIC school teachers. Additionally, the district does not accrue long-term retirement/pension and health care legacy costs associated with retirement benefits for teachers and staff employed by NIC schools. For NIC schools that enter into lease agreements to operate in MPS facilities, the district also recovers, through lease payments, some of the cost of maintaining those buildings if they were vacant.

State and federal categorical aid

As is true for independent charter schools under other authorizers, NIC schools receive, through MPS as their LEA, special purpose funding from state and federal sources to support specific student populations such as low-income students, students with disabilities, or English language learners.^{vii} According to MPS-NIC school contracts, these categorical aids "shall flow to [NIC school] Operator through MPS in accordance with any attendant regulations and in the same manner as non-contracted MPS schools."^{viii} In practice, this means that some of these aids are distributed to NIC schools on a per-pupil basis, but some are used for district-wide programming that may not necessarily be tailored to NIC schools and do not translate into additional payments to NIC schools.

As previously noted, MPS retains a portion of district-wide categorical funds for administrative costs and centralized programming and then makes allocations to schools (whether charter schools or district schools). In contrast, independent charter schools receive the aid directly from the state or federal government and exercise discretion over how to spend it. But they also shoulder the same costs associated with compliance responsibilities as MPS incurs on behalf of its charter schools (a

^{vii} Examples of these categorical revenue sources are state special education aid, state Common School Library Fund, federal Elementary and Secondary Education Act (ESEA) Title I for low-income students, and federal special education funds distributed under the Individuals with Disabilities Act (IDEA).

^{viii} This wording appears in all MPS-NIC contracts governing schools during the 2017-18 academic year.

cost for which the district states it does not charge NIC schools, but one that could be seen as embedded in the administrative fee schools pay).

As noted, MPS, as the LEA for all district schools (both charter and traditional schools), receives some state and federal categorical aids that are calculated based on student counts and some that are determined by district-wide program costs (such as state and federal funding intended to support English language learners). MPS officials state that NIC schools, like all MPS schools, are eligible to access these programs. But because NIC schools, by design, offer distinct academic programs – and because MPS may not consider the distinct needs and priorities of these schools – the extent to which NIC schools benefit from the overall manner in which MPS has elected to use its categorical aids has been questioned.

It could be argued that MPS should be sharing some of the financial benefit it derives from receiving these categorical aids more directly with its NIC schools. This analysis cannot settle that question, as it would require detailed exploration of MPS' precise use of categorical aids and the extent to which such usage already is benefiting NIC schools.

SUMMARY

Fiscal impacts for MPS NIC schools

To summarize the discussion above, charter schools that contract with MPS receive a base per-pupil amount for general operations that is equal to that received by independent charter schools, although some have negotiated additional payment arrangements from MPS. In addition, the administrative fee rate charged by MPS does not differ meaningfully from that charged by UWM or the City of Milwaukee.^{ix} At the same time, state and federal categorical aids are distributed to NIC schools in the same manner as they are distributed to traditional schools. Amounts MPS withholds for both administrative costs and district-wide programming are subject to legal requirements and the district's discretion. This is distinct from the case for independent charter schools, which have direct access to and control over spending of all state and federal aids for which they, as LEAs, are eligible.

Other factors to consider are that NIC schools, by virtue of their contractual relationship with MPS, also appear to have access to a variety of optional services, some of which are free-of-charge and others offered for a fee. However, some charter operators indicate they do not avail themselves of many of these services because they are not relevant to their needs. Chartering with MPS also arguably gives schools greater access to school buildings.

Overall, it is important to remember that authorizers and charter school operators are free to select the contract partner that best serves their needs or advances their strategic goals.

Finally, the differences in contract terms *between* NIC schools that are apparent from this analysis with regard to administrative fee rates and special supplemental payments raise equity concerns

^{ix} As discussed above, MPS administrative fee rates for some schools are higher than those charged by other authorizers and some are lower. (MPS fees range between 1% and 3%, UWM charges 1.7%, and the City of Milwaukee charges between 2% and 2.5%.)

and likely fuel some of the discord that surrounds MPS chartering decisions. Moreover, our interviews with NIC school operators indicate that their relationship with MPS would benefit from better communication and transparency regarding MPS' fiscal and administrative policies and practices.^x

It is not within the purview of this research to reconcile conflicting accounts related to the working relationship between MPS and its NIC schools. However, MPS and state policymakers could ease such cooperative differences through enhanced clarity and equity in district administrative policies and state laws governing district and charter school financing. Later in this report, we discuss factors in both MPS and state policy that contribute to these differences and possible alternative approaches adopted by other states and school districts.

Does MPS benefit financially from NIC schools?

Education finance in Wisconsin primarily is driven by enrollment. As the K-12 public education landscape in Milwaukee has become increasingly competitive, MPS' fiscal condition has been negatively affected by its loss of students. That is because it maintains substantial costs – including retiree health care, pensions, and certain other forms of fixed overhead – that do not diminish as enrollment drops (at least in the short run). Furthermore, it cannot necessarily cut teachers and certain teacher-support costs at a pace that is commensurate with its loss of students.

Consequently, to the extent that NIC schools do, in fact, help MPS retain or attract students, there logically would be a financial benefit to MPS chartering schools. Because it is difficult to prove that NIC schools attract students who otherwise would not enroll at MPS, however, we also seek to answer whether, *putting the question of increased student enrollment aside*, the district benefits financially when it charters NIC schools compared to when it does not.

At first glance, the answer appears simple. When a student enrolls in a NIC school, MPS receives enrollment-based state aid at the same level as it would if those students were enrolled in district schools (\$10,122 per pupil in equalization aid and property taxes plus \$450 per pupil in categorical aid in 2017-18). That is higher than the amount the state guarantees for independent charter schools (\$8,395 per pupil for 2017-18 before any fees or incentive payments).

Because MPS' policy is to provide base per-pupil operating funding (not including categorical aids) for its NIC schools at the same level as they would be funded if they were independent charter schools under other authorizers, this generates a positive per-pupil balance that MPS can use to cover a variety of district-wide costs. Those include costs *inside* classrooms through direct and centralized school accounts and *outside* classrooms through district-wide fixed administrative, infrastructure, and legacy costs.

^x Our interviews with a variety of key informants representing authorizers, charter schools, and other individuals with relevant expertise shed light on some aspects of the working relationship between charter schools and all three authorizers. It should be noted, however, that our interviews *with specific charter school leaders* was limited to officials from two NIC school operators. We were not able to interview representatives from several UWM and City of Milwaukee charter schools, after repeated attempts to make contact. As such, we are not able to ascertain the direct perspective of those schools related to the nature of communication and cooperation with their authorizers.

It also could be argued that NIC schools generate an additional fiscal benefit for MPS. Relative to traditional district schools, NIC schools arguably allow MPS to avoid some costs, most notably those associated with retirement benefits for staff, central programming costs that do not apply to NIC schools, and maintenance of vacant or underutilized facilities (where applicable).

Overall, is it appropriate for MPS to retain the full balance between its per-pupil allocation from state and local sources and the amount allocated to NIC schools? Should it, instead, be sharing a larger portion or even all of this balance with the schools it is chartering? The answers to those questions are in the eye of the beholder.

As noted above, as district enrollment goes down, MPS must allocate a higher share of its per-pupil revenues to fixed costs, leaving less funding going directly to schools. However, that balance arguably is smaller when students are enrolled in NIC schools than when they come through district schools. According to MPS' 2017-18 budget, the average per-pupil amount the district allocated to district and instrumentality charter schools was roughly \$7,570, or about \$650 less than the average funding level MPS provided to NIC schools.²¹

In sum, MPS receives the same amount of revenue whether or not a student enrolls in a NIC school or a traditional school. Assuming students enrolled in NIC schools would be enrolled in district schools if the NIC school did not exist, the principal fiscal impact on the district of NIC enrollment is a loss in discretion over how to allocate a portion of those revenues between enrollment-driven school costs and fixed or indirect costs incurred district-wide.

In addition to any costs NIC schools allow the district to avoid, the precise fiscal impact on MPS of contracting with NIC schools, then, depends on the breakdown between the district's pupil-driven costs and its fixed costs. As long as any one type of school receives a lower per-pupil allocation than the other, then one could argue that the former effectively is subsidizing the latter's share of district-wide fixed costs.

In the context of this analysis, therefore, one could argue that the more NIC schools receive per pupil, the more traditional MPS schools are shouldering the burden of district-wide fixed costs. NIC schools, of course, might argue that given their semi-independent status, and the costs they help the district avoid, they should not be called upon to help shoulder costs that, in some cases (like legacy costs), have little to do with them. Moreover, NIC schools, arguably, do not meaningfully benefit from MPS centralized services designed for traditional district schools with unionized workforces.

CHARTER SCHOOLS IN OTHER STATES

To put the Wisconsin charter school landscape in context, we conducted a national scan to identify charter school policies and funding frameworks in other states that offer relevant lessons for Wisconsin and Milwaukee. The starting point for selecting comparison case studies was to consider states and school districts with charter sectors of comparable size to Wisconsin and Milwaukee, either in terms of enrollment count, charter enrollment as a share of total enrollment, or both. Our preference also was to select states that were in somewhat close geographical proximity to Wisconsin. Based on this scan, we selected four states – Colorado, Indiana, Illinois, and Minnesota – to serve as comparison case studies.

We would note that in reviewing the charter school legal and policy landscape in each of the four states, we considered the “model law for supporting the growth of high-quality public charter schools” established by the National Alliance for Public Charter Schools (NAPCS).²² While this alliance, per its website, advocates for “public school students attending or hoping to attend a charter school,” the model law speaks to issues like equity, accountability, and transparency. Although it is not our aim to advocate for or against the establishment of charter schools, we hope most would agree that these factors should characterize the relationship between states, school districts, and charter schools irrespective of one’s viewpoint on charter school expansion.

We also would note that K-12 education in these states sometimes included several school types with varying levels of autonomy relative to the resident school district or state regulations. States used distinct terms such as “charter school” or “innovation school”^{xi} to signal the nature of a given school’s regulatory flexibility. However, the meanings of such terms are not necessarily uniformly applied across states.

COLORADO

Like Wisconsin, Colorado’s charter school law was enacted in 1993, and the sector has expanded considerably since then – from 50 charter schools in 1997 to 250 serving more than 120,000 students in 2017-18.²³ The state gives chartering authority to local school districts or the Colorado Charter School Institute (CSI), a statewide organization created in 2004, which authorized 41 of Colorado’s charter schools as of 2016-17.²⁴

Colorado law ties charter schools closely with school districts by stipulating that a charter school is “not a separate legal entity independent of the school district, but rather a public school defined uniquely by a charter and partially autonomous while remaining within the school district.”²⁵ It is not surprising, then, that the vast majority of school districts are granted Exclusive Chartering Authority

^{xi} As of June 2017, the Wisconsin Department of Public Instruction has allowed school districts to become “Innovation Districts” by applying for waivers from certain state laws or regulations in order to create innovative educational programs aimed at improved student outcomes. <https://dpi.wi.gov/sites/default/files/imce/eis/pdf/Innovation%20Guidance.pdf>

(ECA), meaning they are the only authorizer in their district (only eight districts were not granted this status).

Funding

Colorado allocates a guaranteed minimum funding level per K-12 pupil – \$6,769 in 2018-19.²⁶ While charter schools receive 100% of this per-pupil allocation (designated as Per Pupil Revenues for operating expenses, capital reserve, and risk insurance), the charter authorizer may retain funds to cover the actual overhead costs for services they provide to the school. In districts with more than 500 students, the overhead costs may not exceed 5% of the per pupil revenues (smaller districts limit the overhead costs to 15%).²⁷

The law also requires the district to provide its charter schools with an itemized account of its central administrative overhead costs as well as an itemized account of actual costs for services the charter school purchased from the district. The methodology established for calculating purchased services costs ensures that charter schools are paying the same amount per pupil for centralized district services as district schools. Colorado law also explicitly grants charter schools the option to choose whether to purchase services from their authorizer or from a third party.

A 2017 law also mandates equitable access to some local tax revenues for charter schools. For example, mill levy overrides^{xii} must be shared with charter schools. The district can choose to send 95% of the school's allocation to the school (5% can be kept as an administrative fee), or it can share these funds among all of its schools for district-wide student or programmatic needs. The district is prohibited from discriminating between types of schools when distributing or making use of such funds.²⁸ This provision applies only to charter schools authorized by school districts – schools authorized by CSI cannot access this funding source. Finally, charter schools authorized by a local school district also may be able to borrow money from their authorizing district.²⁹

Facilities

Independent charter schools in Colorado may be charged rent for using school district facilities, but it is a nominal amount – rent may not exceed \$12 per year.³⁰ Similar to Wisconsin, the school also must negotiate payment of operations and maintenance costs for the use of district-owned buildings.

For charter schools that do not operate in district facilities, the law explicitly allows charter schools to lease or purchase land from the state. Moreover, Colorado law makes charter schools eligible for capital funding from the state legislature. This matching grant program, Building Excellent Schools Today (BEST), is available to charter schools that have been operating for at least three years and that are located in a facility with capital construction needs. The funds are distributed on a per-pupil basis, and the amount available for the grant changes annually based on state legislative policy decisions.

^{xii} In Colorado, a mill levy override is similar to a property tax referendum to exceed per pupil revenue limits in Wisconsin. <https://www.greeleyschools.org/Page/21492>

Denver School District

The Denver Public Schools (DPS) website lists 64 charter schools and notes that all are authorized by DPS. According to the Colorado Department of Education, close to 20,000 students were enrolled in charter schools in DPS in 2017-18. In contrast to MPS, DPS has Exclusive Chartering Authority in its enrollment area (as do most school districts in Colorado).

Of potential relevance to Milwaukee, DPS established a District-Charter Collaborative Council aimed at fostering collaboration with charter schools regarding facilities, special education programming, and peer learning opportunities. The council's stated purpose is to discuss and develop policy recommendations to improve the working relationship between DPS and its charter schools. The council is committed to sharing best practices between school sectors as well as sustaining charter school autonomy. One way it encourages cooperation is through working groups that focus on solving specific problems or addressing concerns. Working group recommendations then go to the collaborative council and the district superintendent.

Colorado law also includes separate provisions governing a similar school type, referred to as "innovation schools." While charter schools in Colorado are independently run, innovation schools are managed by the district. Innovation schools are able to waive some district policies, state statutes, and collective bargaining agreements to encourage the design and implementation of innovative practices aimed at improving student outcomes.³¹

ILLINOIS

Enacted in 1996, Illinois' charter school law establishes school districts as the primary authorizers of charter schools.³² According to the Illinois State Board of Education, as of 2016-17, Illinois had 61 charter schools with 141 school campuses serving more than 65,000 students, most of which were in Chicago. ³³ There are 10 active authorizers in Illinois: nine school districts (including Chicago Public Schools) and the State Charter School Commission.

The commission has statewide chartering jurisdiction and authority, but it is limited to authorizing charter schools that appeal their school district's original decisions. The commission may charge up to 3% of the school's revenue in administrative fees.³⁴ However, Illinois charter law does not appear to specify limits on the administrative fees collected by school districts, which comprise the vast majority of charter school operators. Charter schools authorized by the commission are their own LEAs, while charter schools authorized by a school district fall under the authorizing district's LEA.

An annual audit of charter schools is required, and it must be completed by an independent, outside entity. The audit is submitted to the authorizer and the State Board. An authorizer may require quarterly financial reports to facilitate financial oversight.³⁵

Funding

The State of Illinois guarantees a "foundation level" of funding for each student in a public school district. Similar to Wisconsin's revenue limit per pupil, the foundation level is achieved by determining the level of funding each school district can raise through property and other local taxes, with General State Aid making up the difference. In fiscal year 2016, the foundation level was

\$6,119.^{xiii} Additional funding goes to districts based on other factors, such as high levels of poverty.³⁶

For the purposes of local charter school financing, charter school students are counted in the enrollment tally of the school district in which they reside, which then sends funds to the charter school in which the student is enrolled. Illinois charter law guarantees charter schools are funded between 97% and 103% of a home district's per capita tuition (an amount derived from a formula meant to quantify the amount of its own resources a school district spends per student).³⁷ The exact amount a charter school receives from the home school district is laid out in the charter school-authorizer agreement.

In addition, the Board of Education maintains a variety of other funding policies that benefit both charter schools and their home school districts. Transition impact aid for home school districts, for example, replaces some of the per capita funding the district pays the charter school (90% in the first year, 65% in the second year, and 35% in the third year), mitigating somewhat the financial impact of students leaving the district.³⁸ However, funding for this program has not been allocated since fiscal year 2009, leaving many smaller districts hesitant to charter schools.³⁹

The Board also provides start-up grants, capped at \$250 per student, to cover materials such as textbooks, technology, and furniture for a new school.⁴⁰ Additional assistance for these needs is available from the Charter Schools Revolving Loan Fund, which provides interest-free loans to charter schools of up to \$750 per student. Charter schools are eligible for only one loan in their initial term of operation.⁴¹ Furthermore, charter schools are eligible to apply for and receive any grant that the State Board makes available to school districts.⁴²

Facilities

As nonprofits, charter schools are eligible to participate in the Illinois Finance Authority's lease and revenue bond program, which provides favorable terms to help nonprofits acquire, construct, or renovate real estate and other fixed assets.⁴³

Charter schools may contract with school districts, public universities, or other entities for the use of facilities to be used as a school, as well as for the operation and maintenance of the facility. The school district can charge a "reasonable rent" for the use of its facilities, and must charge for any other services it provides to the charter school at cost. Services provided by school boards or public colleges or universities also must be provided at cost.⁴⁴

Conversion charter schools (i.e., those formed by the conversion of a traditional school to a charter school) cannot be required to pay rent for school district facilities. Other costs, such as maintenance of the school district facilities, are subject to negotiation and must be laid out in the charter agreement.⁴⁵

^{xiii} Notably, Illinois has not been able to pay school districts the full foundation level amounts for several years. In 2015-17, the state funded only 92.1% of the overall cost of funding all districts at the foundational level.

Chicago School District

Chicago Public Schools (CPS) is the charter authorizer within the City of Chicago.⁴⁶ The CPS Office of Innovation and Incubation, whose mission is to “provide students with access to high quality and innovative education,” oversees authorization and oversight for CPS charter schools.⁴⁷ In the 2017-18 school year, CPS authorized 122 charter schools⁴⁸ serving an estimated 59,270 students, approximately 16% of CPS enrollment.⁴⁹

As required by state law, all charter schools authorized by CPS must have an annual financial audit conducted by an independent auditor. These audits are collected and published as part of the Annual Financial and Compliance Scorecards on the CPS website. Additionally, as part of its renewal process, CPS reviews charter schools’ financial audits. Charter schools who fail to meet minimum criteria for fiscal management may have their charter revoked.

INDIANA

As of 2017-18, Indiana had 96 charter schools with 38,800 students.⁵⁰ Indiana state law empowers several types of entities to authorize charter schools, including K-12 school districts (known as “school corporations” in Indiana); an executive of a consolidated city (the Indianapolis Mayor’s Office); and state or nonprofit institutions of higher education that offer a four-year degree.⁵¹

An additional authorizer is the Indiana State Charter Board (ICSB). Created in 2011, the ICSB is an independent state agency authorizing charter schools throughout the state.

Authorizers are required by law to submit annual reports to the State Board of Education that include information about their finances, the schools they authorize, the renewals and non-renewals for the year, and independent financial audits for each school.⁵² These reports are available on the Board’s website.

All charter schools in Indiana are considered their own LEA, which confers considerable autonomy, even to those authorized by school corporations. In addition, for some purposes, such as funding, Indiana’s charter law treats charter schools as school corporations.

Funding

Indiana provides “basic tuition” support in equal amounts for each student regardless of the school they attend, set at \$5,352 per student for the 2018-19 school year. Schools receive additional funding through a complexity grant that differs by school district, demographics, and other factors.

Authorizers may charge charter schools no more than 3% of their basic tuition allocation in administrative fees to cover oversight costs.⁵³ The fees cannot include the costs of other services the charter school may purchase from the authorizer. By law, the charter school cannot be required to purchase any services (except oversight services) from its authorizer, and the authorizer cannot charge more than market rate for any such services.

Additionally, charter schools may qualify for grants from the Charter and Innovation Network School Grant, which is administered by the State Board of Education. In order to qualify, the school may not

receive a share of local property tax revenue. The grant money may be used for capital improvements and other capital projects, technology, and transportation.⁵⁴ Currently, the grant amount is \$500 per eligible charter school pupil.

Facilities

In addition to providing access to funding through the grant program described above, Indiana maintains on the Department of Education's website a list of school buildings statewide that are closed, unused, or unoccupied. Buildings on this list are to be leased to an interested charter school for \$1 per year, or sold for \$1. During any lease, the charter school is responsible for expenses such as utilities, insurance, maintenance, and repairs, while debts associated with the property remain the responsibility of the school corporation. If the charter school does not begin to use the building for classroom instruction within two years, or if the school closes, then the building is placed back on the list; if a building is still available after two years on the list, then the school corporation may sell it.⁵⁵ The website currently lists just two buildings.

In addition, Indiana law allows a school corporation to vote to share a portion of its capital funds with a charter school.⁵⁶ The Charter School Facilities Assistance Fund provides grants and loans to charter schools for capital needs such as purchasing or constructing buildings or other maintenance.⁵⁷ Charter schools in Indiana also have access to bonds through the Indiana Finance Authority and other authorized sources.

Indianapolis School District

Charter schools within the city of Indianapolis are authorized by the Indianapolis Mayor's Office. Within the city of Indianapolis, approximately 14,240 students were enrolled in approximately 30 charter schools in 2016-17, a figure that represents about 33% of the enrollment of Indianapolis Public Schools (IPS).⁵⁸ However, IPS does not charter schools. Instead, the district has a portfolio of autonomous schools.

Among these, Innovation Schools operate in a similar manner to MPS' NIC schools. Students at Innovation Schools are counted as IPS students, but teachers are not IPS employees. This is in contrast to other autonomous schools within IPS, whose teachers are treated the same as teachers at IPS' traditional schools and are part of the IPS bargaining unit (similar to MPS instrumentality charter schools). According to IPS, school leaders at all autonomous schools have authority over the academic functions of their schools. Leaders of Innovation Schools have additional decision-making authority over operational functions.

As a matter of IPS board policy, IPS notes that "Innovation Schools are in partnership with IPS through a legal agreement that outlines services each organization will provide as well as how the Innovation School will be held accountable to achieving results."⁵⁹

IPS currently lists 17 Innovation Network Schools on its website, with three more slated to open in 2018-2019. The contracts between IPS and their Innovation Schools – which are available on their website – are similar to charter contracts.⁶⁰ For example, one Innovation School contract provides a school building for use by the operator, with IPS providing the same utilities and maintenance

support it provides to traditional district schools. This provides greater benefit to the Innovation School than state law would for a charter school, which stipulates a \$1-per-year rent but holds the school responsible for utilities and maintenance.

Innovation School agreements also dictate the amount of money the school will receive from the district. On a monthly basis, the school receives the average of IPS' per-pupil state basic tuition support and complexity grant funding, multiplied by the average daily membership count for the school. In some cases, according to agreements negotiated between IPS and individual Innovation Schools, IPS deducts from the Innovation School's monthly payment a flat fee of \$2,083 to offset various costs IPS incurs on behalf of the school.⁶¹ Additionally, IPS agrees to pay the Innovation School any additional state funds it receives for the charter school such as funds for special education or English as a Second Language.

MINNESOTA

Minnesota established the first charter school in the nation, having enacted its charter school law in 1991. The state currently has 164 charter schools with an estimated 56,200 students. In Minnesota, there are 14 charter school authorizers including school districts, colleges and universities, nonprofits, and organizations called Single Purpose Authorizers.⁶² Charter schools have the same financial audits, audit procedures, and requirements as traditional public school districts.

Funding

Minnesota allocates general education revenues to charter schools and district schools in the same manner.⁶³ As such, funding for charter schools and district schools start at the same level with an allocation called "basic revenue," set at \$6,312 in 2018-19.⁶⁴ The amount authorizers can charge charter schools for administrative fees is guided by a formula in Minnesota law.⁶⁵ During their first three years of operation, in order to receive state aid payments, charter schools in Minnesota are required to submit a school calendar and quarterly reports, which must include a list of each student along with specific information such as their start and end dates. After the first three years, charter schools need only submit school calendar and enrollment information.

Facilities

Because charter schools in Minnesota may not purchase facilities using state funds, leasing is a common practice.⁶⁶ To help defray leasing costs, the state offers a program called Building Lease Aid, which covers the lesser of either 90% of approved rent or provides a dollar amount per student (\$1,314 in 2017-18).⁶⁷ Charter schools must re-apply for this funding each year, which makes it an uncertain source of funding. Notably, school districts are not permitted to rent to schools they authorize.⁶⁸

One way in which charter schools may mitigate such uncertainty is to also establish an affiliated building corporation (ABC). The ABC can receive other forms of funding, including bonds, loans, or mortgages, to purchase a building which it in turn leases to its affiliated charter school. Building Lease Aid can be used to pay this rent to the ABC. Charter schools are eligible to form an ABC if they

have been in operation for six years and have had a positive net balance in their general fund for the previous three years.⁶⁹

Minneapolis School District

According to budget documents, Minneapolis Public Schools had four charter schools in 2015 (out of 76 total schools). Per district policy, its governance of charter schools is limited to what is spelled out in the charter contract or to items that require the district's approval or review.⁷⁰

In addition to the public school district, nine other charter school authorizers operate 34 schools in Minneapolis. Seven of these authorizers have four or fewer charter schools under their jurisdiction in Minneapolis. Overall, the National Alliance for Public Charter Schools estimates approximately 10,840 charter school students in the city of Minneapolis during the 2016-2017 school year, comprising almost a quarter (23%) of Minneapolis Public Schools' overall district enrollment.⁷¹

The large number of authorizers in Minneapolis suggests Minneapolis Public Schools might confront competition for enrollment from charter schools in much the same manner as MPS. However, unlike in Milwaukee, district and charter schools in Minnesota receive the same level of state aid regardless of whether a student enrolls in a district or charter school. Consequently, Minneapolis Public Schools, with four out of the 34 charter schools in Minneapolis, appears not to confront the same fiscal pressures to compete with charter schools for enrollment market share.

LESSONS LEARNED FROM PEER STATES

These case studies show that in some respects, the policy environment governing charter schools in Wisconsin and Milwaukee reflects practices surrounding charter school law in other states. Specifically, Milwaukee's authorizer fees appear to be in line with what is considered reasonable by the charter school advocacy organization in states with strong charter school laws. Moreover, Wisconsin's accommodation of multiple charter school authorizers statewide is consistent with other states.

There are three areas, however, in which Wisconsin's legal provisions are dissimilar from other states. Whether policymakers wish to consider changes to bring Wisconsin more in line with these examples likely will depend on their viewpoint on the value of charter schools.

- **Equitable access to operating funds.** Through various legal frameworks, the methodologies for funding school operations in all four case study states treat charter schools and district schools in a similar manner. This includes some measure of basic per-pupil allocations and, in some cases, access to additional funding sources such as property tax referenda monies.

In addition, Indianapolis Public Schools' practice of paying its Innovation Schools on a monthly basis tracks actual changes in school enrollment (and associated costs) over the course of a school year. If this practice could be made administratively feasible in Milwaukee, it would mitigate the fiscal impacts on both charter and district schools of student mobility throughout the year. Another instructive practice is Illinois' transition impact aid program, which recognizes the fiscal strain districts incur when students enroll in a charter school outside the district and was

designed to reimburse districts for some of the funding they pay charter schools (though only when state funding is appropriated to do so).

- **Equitable access to facilities/funding for facilities.** Other states provide charter schools with direct access to school facilities; or assist with their efforts to secure facilities through borrowing, grant funds, or favorable lease terms. Denver’s matching grant program, for example, levels the playing field for schools that do not operate in school district facilities. And through a number of statewide programs, Indiana gives charter schools access to both grants and bond financing to enable them to purchase facilities or technology, initiate construction or renovation, or finance other capital needs. Finally, all four states provide favorable terms for charter schools to lease school district or other facilities. One common practice is for school districts to charge charter schools a nominal fee to lease or purchase vacant school district facilities while the charter school assumes the cost of utilities and maintenance.
- **Accountability/transparency.** We observed several practices in these case studies where a charter school authorizer may retain funds from state per-pupil aids, but also must document the oversight-related services they provide for such funds. In addition, we found cases where the per-pupil administrative fees paid by charter schools to their authorizers reflected the same administrative costs incurred by district schools on a per-pupil basis. For example, Colorado and Indiana both explicitly state how much an authorizer can charge for its administrative fee and require that they document and itemize the services rendered for those fees, providing protection and transparency for both authorizers and charter schools.

OBSERVATIONS & CONCLUSION

Our efforts to explain the funding framework for the different types of charter schools in Milwaukee – as well as to explore the specific financial impacts of the chartering relationship for MPS and the schools it charters – were intended to clarify a complex but critical component of Milwaukee’s K-12 education landscape. From our perspective, the controversy that has surrounded MPS’ consideration of chartering additional schools required such clarification.

A particular point in need of clarification has involved MPS’ payments to its NIC schools, and whether they appropriately reflect the potential benefits that each side brings to the relationship. Our key findings with regard to that question include the following:

- When viewed strictly in terms of per-pupil operating funds, MPS’ charter school payment policy puts its charter schools on a level playing field with independent charter schools, which are funded on a per-pupil basis based on state policy. In other words, both types of schools received \$8,395 per pupil as a base payment in 2017-18.
- Because MPS’ base per-pupil general operating revenue (i.e., the amount it is allowed under the per-pupil revenue limit plus its per-pupil categorical aid) is higher than the per-pupil base payment it makes to its charter schools (\$10,572 vs. \$8,395 in 2017-18), it realizes a positive balance for each charter school student. After accounting for special supplemental payments and administrative fees, we find that the average per-pupil balance realized by MPS was \$2,243 in 2017-18.
- MPS uses this positive balance for district-wide costs. This is essentially the same practice it uses for its traditional schools, which receive a base per-pupil amount during the budget process that is less than the per-pupil allocation allowed by the state, with the balance used for centralized programming and services, administrative costs, legacy costs, etc. According to MPS’ 2017-18 budget, the average per-pupil amount allocated to district and instrumentality charter schools was \$7,570, or about \$650 less than the average funding MPS provided to NIC schools.
- MPS’ decision to retain a “positive balance” from its NIC students could be justified by the argument that NIC schools – like all MPS schools (including instrumentality charter schools) – should contribute to the district’s general overhead and administrative costs. The NIC schools, on the other hand, could argue that they already pay for overhead through their administrative fee and that, given their status as semi-independent entities, they should not be called upon to support overhead and administrative costs at the same (or nearly the same) level as traditional MPS schools. Further, they might argue that the positive balance is only generated in the first place by their existence, though it is impossible to determine whether students enrolled at NIC schools would revert back to traditional MPS schools or other types of schools if the NIC schools did not exist.

The intention of our analysis was not to referee this dispute, but simply to lay out verifiable facts. However, our findings – as well as our analysis of charter school funding frameworks in other states – also raise some important policy questions for both state and local policymakers.

CONSIDERATIONS FOR STATE POLICYMAKERS

The state’s K-12 school funding system creates winners and losers in a number of ways, the effect of which can pit different types of schools against each other. State policymakers are, in fact, grappling with this and other issues in broad terms through a legislative task force assembled late in 2017, dubbed the Blue Ribbon Commission on School Funding.

As discussed, Wisconsin has been expanding the number of charter school authorizers and has leveraged federal funding to establish or expand charter schools statewide. This trend, coupled with questions surrounding funding methodologies and transparency for charter schools in Milwaukee, suggests that state policymakers consider potential changes to current policy, such as the following:

- **Equitable access to operating funds:** Some states have adopted K-12 school funding systems that provide a uniform basic minimum amount of operating funding to all school types. Other states require school districts to provide base per-pupil funding to the schools they charter that is comparable to the amount allocated to traditional schools. Similar provisions, if adopted in Wisconsin, might abate disagreements over how much MPS should be paying its charter schools.
- **Equitable access to facilities:** Whether or not they support expanding the number of charter schools statewide, lawmakers may deem it appropriate to consider policies that ensure *existing* charter schools across all authorizers can house their students in safe and functional facilities. For example, as discussed earlier in this report, other states have adopted provisions allowing charter schools to use state facilities; providing them grants or capital financing for repairs, renovation, or construction; and ensuring fair treatment under lease terms with school districts.
- **Uniformity and transparency:** Effective July 2015, Wisconsin state law has required school districts and other authorizers to submit to DPI audited financial statements showing the itemized operating costs incurred on behalf of and services provided to their charter schools.⁷² Authorizers also could be required to adopt a uniform methodology for assessing the administrative costs they incur to oversee charter schools. The state could require that administrative fees be determined based on actual documented authorizer oversight costs and applied uniformly across all of the schools in an authorizer’s portfolio. In the case of school district authorizers, administrative fees per pupil for charter schools could be capped so as not to exceed administrative costs per pupil district-wide. Finally, the state could require DPI as well as school districts and other authorizers to make the itemized information they submit to DPI easily accessible to the public on their websites or by other transparent means.
- **Mitigation of financial harm to school districts from charter schools:** State charter law could include provisions that help protect school districts from sudden large enrollment drops

toward charter schools. This would remove some of the financial risk that may currently discourage school districts from authorizing charter schools and allow them to determine whether to do so from a programmatic standpoint. The 2015-17 Wisconsin state budget established five new independent authorizers and allowed the schools established under those authorizers to be counted by their district of residence for revenue limit and general aid purposes. Policymakers could consider expanding the reach of that provision to include Milwaukee's independent authorizers.⁷³

CONSIDERATIONS FOR MILWAUKEE POLICYMAKERS

As shown throughout this report, charter school policy largely rests with state policymakers. However, Milwaukee policymakers, most notably those at MPS, have influence over several policy levers as well.

- **Equitable access to operating funds:** One of the key findings of this research is that even among MPS' NIC schools, the district's per-pupil payments vary among individual schools because some charter school operators have negotiated more favorable payment and administrative fee terms than others. This undermines a sense of fairness in the way the district treats its different NIC school operators. One option would be for the district to phase out special payment and fee arrangements so that all schools are subject to the same financial contract terms. MPS also could modify its approach by linking any special payment or fee arrangements to high performance and applying that methodology to all NIC schools. Finally, in light of the fact that NIC schools operate independently (and do not benefit from funds allocated to central administration and programming to the same extent as district schools do), MPS could consider that factor when determining NIC schools' per pupil allocation for operating funds.
- **Transparency:** MPS could alleviate concerns about the way it funds both charter and district schools if it improved its public presentation of direct and central school costs, as well as district administrative, infrastructure, and legacy costs. MPS, like all charter school authorizers, is required to submit to DPI an itemized accounting of all costs it incurs on behalf of and services it provides to its charter schools. Whether or not the state takes action on this issue, the district could add an extra layer of transparency by adopting a policy of laying out such costs incurred and services provided on a per-pupil basis for all of its schools (including NIC schools), and making such information readily available on its website. As a matter of policy, the district could then align administrative fees to those costs for all schools. MPS could follow a similar process for communicating facilities costs, structuring lease terms around such costs, and making that process uniform across all lease agreements. Collectively, these steps could help MPS avert the perception that it is profiting at the expense of charter schools or showing favoritism toward specific operators.

Finally, this analysis sought to answer a narrow set of questions related to the way charter schools are financed in Milwaukee. In doing so, it also uncovered a number of related questions that stem from financial distinctions by school type. Among such questions, the following merit particular attention and call for further research:

- How do all public education dollars (local, state, and federal) filter down to each of the different school types, including traditional district schools, district charter schools, independent charter schools, and private schools accepting parental choice vouchers?
- What is the actual amount of public money spent per pupil in each school setting?
- To what extent do per-pupil spending levels vary by school setting for key educational costs such as teacher compensation, support for students with disabilities, and facilities?
- What is the relationship between the amount of public expenditures in a given school setting and student outcomes in that setting?
- What accounts for any differences found on any of these questions?

We hope this analysis helps policymakers – as well as the broad base of K-12 education stakeholders – better understand the financial landscape related to charter schools in Milwaukee. Moreover, we hope that by shedding light on issues surrounding debates over financial aspects of chartering schools, our analysis will help ensure that policy discussions also focus on how and whether such schools produce outcomes that best serve Milwaukee’s children.

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