



# The Florida Senate

Interim Project Report 2008-120

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Committee on Education Pre-K - 12

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## CHARTER SCHOOL ACCOUNTABILITY

### SUMMARY

Since their inception in Florida in 1996, charter schools have increased steadily in number to 358 schools as of the 2007-2008 school year. This report examines charter school accountability in the areas of financial management, school grading, and class size compliance. Based upon survey research, a literature review, and findings of the Auditor General and the Office of Program Policy Analysis & Government Accountability (OPPAGA), this report emphasizes the need for stronger financial accountability, especially during the initial stages of operation. A recommendation is also made regarding class size compliance.

### BACKGROUND

#### Charter Schools

Since the first charter school opened in 1991, 40 states, the District of Columbia and Puerto Rico have approved charter schools.<sup>1</sup> Nationally, more than 3,000 charter schools exist today.<sup>2</sup>

Most states that authorize charter schools require them to operate as non-profit entities, or to be governed by non-profit boards. Regardless, many states, including Florida, allow management by for-profit corporations, commonly known as education management organizations (EMO).<sup>3</sup>

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<sup>1</sup> John Morley, *For-profit and Nonprofit Charter Schools: An Agency Costs Approach*, 115 YLJ 1782, 1784 (2006).

<sup>2</sup> James Forman, Jr., *Do Charter Schools Threaten Public Education? Emerging Evidence From Fifteen Years of a Quasi-Market for Schooling*, 2007 UILLR 839, 840 (2007).

<sup>3</sup> Anne E. Trotter, Suzanne E. Eckes, & Jonathan A. Plucker, *Education Management Organizations and Charter Schools: Serving All Students*, 213 WELR 935, 937 (2006).

The 1996 Legislature authorized the creation of charter schools in Florida, and five opened that year.<sup>4</sup> By the 2001-2002 school year, the number of charter schools had increased to 181 schools.<sup>5</sup> According to the Department of Education (DOE), there are 358 charter schools operating in the state for the 2007-2008 school year.

For 2006-2007, Florida had the third highest number of charter schools in the nation. In comparing Florida to other states on the basis of student enrollment numbers that same year, Florida ranked second highest.<sup>6</sup>

#### Florida Law on Charter Schools

Florida law specifies that all charter schools are considered public schools.<sup>7</sup> Charter schools are formed through the creation of a new school or the conversion of an existing public school.<sup>8</sup> A charter, or the written contractual agreement between the sponsor and applicant, establishes terms and conditions of operation.<sup>9</sup>

#### Funding

As charter schools are considered public schools, they are generally funded as other public schools are, through the Florida Education Finance Program (FEFP).<sup>10</sup> Charter schools report student enrollment to the sponsor, for inclusion in the district report.<sup>11</sup>

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<sup>4</sup> ch. 96-186, L.O.F.

<sup>5</sup> Auditor General, *Report on Significant Findings and Financial Trends in Charter School and Charter Technical Career Center Audit Reports Prepared by Independent Certified Public Accountants For the Fiscal Year Ended June 30, 2006*, Report No. 2008-018 (2007).  
<sup>6</sup> [http://www.floridaschoolchoice.org/information/charter\\_schools/files/fast\\_facts\\_charter\\_schools.pdf](http://www.floridaschoolchoice.org/information/charter_schools/files/fast_facts_charter_schools.pdf); Last checked October 12, 2007.

<sup>7</sup> s. 1002.33(1), F.S.

<sup>8</sup> *Id.*

<sup>9</sup> s. 1002.33(6)(i), F.S.

<sup>10</sup> s. 1002.33(17) and (19), F.S.

<sup>11</sup> s. 1002.33(17)(a), F.S.

### ***Application and Sponsorship***

Existing charter schools are sponsored by a district school board or a state university, in which case the charter school was converted from a lab school to a charter lab school.<sup>12</sup> Sponsors are responsible for monitoring the charter school, reviewing revenues and expenditures, and ensuring innovation and consistency with state education goals, including the state accountability system.<sup>13</sup>

Charter lab school applications are subject to review by the state university in consultation with the district school board in that jurisdiction.<sup>14</sup> District school boards that have been granted exclusive jurisdiction over charter schools in their districts review and approve or deny all charter school applications.<sup>15</sup>

Alternatively, charter school applicants may apply to the Florida Schools of Excellence Commission (FSEC) in instances in which the district school board has not received the status of exclusivity. This option has only been available recently, as the Legislature created the FSEC in 2006.<sup>16</sup> The Legislature established the FSEC as an independent state-level authorizer of charter schools, appointed by the Governor, Senate President, and House Speaker.<sup>17</sup> The FSEC is permitted to enter into co-sponsorships with municipalities, state universities, community colleges, and regional educational consortia.<sup>18</sup>

Besides sponsor duties already specified in law, oversight duties of the FSEC include the following:

- Monitoring, reviewing, and holding accountable the performance of co-sponsors and charter schools;
- Collaborating with co-sponsors to monitor the financial management of charter schools; and
- Informing charter schools and applicants of private funding sources and support.<sup>19</sup>

Statutory authority requires the State Board of Education to hold hearings on exclusivity for district school boards that have submitted exclusivity applications.<sup>20</sup> District school boards are initially

authorized to request exclusivity with the 2007-2008 fiscal year, and each year thereafter.<sup>21</sup>

### ***Charter Application Contents***

An application for a charter is required to contain an annual financial plan for each year requested for operation up to five years.<sup>22</sup> Specifically, the application must include both a full accounting of expected assets and the costs of operation.<sup>23</sup> The DOE is required to provide training and technical assistance to applicants in developing business plans, including startup cost estimations, projected enrollment, and identification of state and federal aid.<sup>24</sup>

The charter is required to address:

- Distinctive instructional techniques;
- A curriculum emphasis on reading;
- A baseline standard of student academic achievement and participation in the statewide assessment program;
- Methods to ensure a racial/ethnic balance representing the community or district;
- Financial management of the school, such as audit procedures and an establishment of controls to ensure proper management; and
- An agreement that if an audit reveals a state of financial emergency, the auditors will notify the board, the sponsor, and the DOE.<sup>25</sup>

### ***Sponsor Services to Charter Schools***

Sponsors are required to provide specific administrative and educational services, including:

- Contract management;
- Full-time equivalent and data reporting;
- Test administration and exceptional student education administration services;
- Federal lunch duties;
- Teaching certificate data processing;
- Access to student information systems used by public schools in the same district; and
- Provision of student performance data.<sup>26</sup>

For these duties, an administrative fee is authorized.<sup>27</sup>

<sup>12</sup> s. 1002.33(5)(a), F.S.

<sup>13</sup> s. 1002.33(5)(b), F.S.

<sup>14</sup> s. 1002.33(6)(h), F.S.

<sup>15</sup> s. 1002.33(6)(b), F.S.

<sup>16</sup> ch. 2006-302, L.O.F.

<sup>17</sup> s. 1002.335(3)(a), F.S.

<sup>18</sup> s. 1002.335(4)(a)1. and 2., F.S.

<sup>19</sup> s. 1002.335(4)(a), F.S.

<sup>20</sup> s. 1002.335(5)(e), F.S.

<sup>21</sup> s. 1002.335(5)(c), F.S.

<sup>22</sup> s. 1002.33(6)(a)5., F.S., requires the plan to contain anticipated fund balances based on revenue projections, a spending plan based on projected revenues and expenses, and a description of controls to safeguard finances and projected enrollment trends.

<sup>23</sup> s. 1002.33(6)(b)2., F.S.

<sup>24</sup> s. 1002.33(6)(g), F.S.

<sup>25</sup> s. 1002.33(7)(a), F.S.

<sup>26</sup> s. 1002.33(20)(a), F.S.

### ***Audits***

Charter schools are subject to annual financial audits pursuant to s. 218.39, F.S.<sup>28</sup> Financial audits must be provided to the charter school governing body when they reveal a state of financial emergency within seven business days of receiving such status.<sup>29</sup> Once an auditor declares a state of financial emergency, the charter school is required to file a detailed financial recovery plan with the sponsor within 30 days of receipt of the audit.<sup>30</sup>

### ***Governing Board Duties***

Statutory authority requires charter schools to maintain financial records for their accounting systems in a specified manner, comparable to that required of other public schools.<sup>31</sup> This information is critical, as it is mandated for inclusion in district reporting, for purposes of access to FEFP funding.<sup>32</sup> Other duties of the charter school governing board include:

- Annually adopting an operating budget;
- Ensuring that the charter school has retained the services of a Certified Public Accountant (CPA) or auditor for the annual financial audit;
- Reviewing and approving the audit report, including findings and recommendations for a financial recovery plan;
- Monitoring a financial recovery plan; and
- Reporting the school's annual accountability progress to its sponsor.<sup>33</sup>

Governance training is mandated in the areas of open government, conflicts of interest, ethics, and financial responsibility.<sup>34</sup>

### ***School Grade Accountability***

Charter schools must complete an on-line annual accountability report provided by the DOE, to include student achievement performance data and the financial status of the charter school.<sup>35</sup> An analysis of the report by the DOE is then submitted to the State Board of Education, the Commissioner of Education, the Governor, the President of the Senate, and the Speaker of the House of Representatives. The analysis provides a comparison of student performance between charter

schools participating in the statewide assessment and other public school students.<sup>36</sup>

## **METHODOLOGY**

Staff reviewed the following issues: financial management, governance, student academic performance, school grading, and class size compliance. Staff surveyed existing charter schools. Additionally, staff consulted with the DOE, OPPAGA, and the Office of the Auditor General.

## **FINDINGS**

### **Financial Health of Charter Schools**

#### ***Office of Program Policy Analysis & Government Accountability (OPPAGA)***

OPPAGA conducted a study in 2005 that focused on two areas relating to charter schools:

- How does Florida's process of establishing charter schools compare to that of other states?; and
- How well are charter schools performing financially, and how can financial management be improved?<sup>37</sup>

In comparing Florida's charter school requirements to other states, researchers concluded that Florida's application requirements are extensive, but reasonable, in that they provide critical information to sponsors in determining whether a school would be academically and financially successful.<sup>38</sup>

Nonetheless, OPPAGA expressed concern over a growing number of charter schools experiencing financial difficulties. Reasons cited include:

- High facilities cost;
- Inaccurate enrollment projection;
- Inadequate expertise in financial management; and
- The small size of some charter schools.<sup>39</sup>

Schools operated by education management organizations tended to show higher rates of financial

<sup>27</sup> s. 1002.33(20)(a), F.S.

<sup>28</sup> s. 1002.33(1)(e), F.S.

<sup>29</sup> s. 1002.33(9)(g), F.S.

<sup>30</sup> *Id.*

<sup>31</sup> s. 1002.33(9)(h), F.S.

<sup>32</sup> s. 1011.60(1), F.S.

<sup>33</sup> s. 1002.33(9)(i), (j), (k) and (l), F.S.

<sup>34</sup> s. 1002.33(9)(k)4., F.S.

<sup>35</sup> s. 1002.33(9)(l), F.S.

<sup>36</sup> s. 1002.33(23), F.S.

<sup>37</sup> OPPAGA, *Charter School Application Requirements Are Reasonable; Financial Management Problematic*, Report No. 05-11 (2005); OPPAGA indicates that an updated report is underway, although not completed at this time.

<sup>38</sup> *Id.* at 3.

<sup>39</sup> *Id.* at 8.

deficits. OPPAGA noted that although federal start-up funding may be available, most states, including Florida, do not provide start-up funding for charter schools. For 2002-2003, about 50 percent of the Florida charter schools whose audits disclosed unreserved fund balance deficits were in their first two years of operation. This appears to correlate with high start-up and facilities costs in the beginning of a school's operation.<sup>40</sup>

Inaccurate enrollment projections can be particularly detrimental to a charter school's survival. According to OPPAGA:

The consequences of inaccurate enrollment projections can be more substantial for charter schools than traditional public schools because charter schools cannot absorb the resulting shortfalls as easily as school districts that can shift funds between schools and within larger budgets.<sup>41</sup>

Researchers report little financial management experience among charter school staff, particularly in governmental accounting practice. Small charter schools begin at a disadvantage, as they operate without the benefit of economies of scale. Charter schools managed by EMOs represented almost 50 percent of charter schools with unreserved fund balance deficits in 2002-2003, although only 22 percent of Florida's 300 charter schools operating that year were managed by outside companies.<sup>42</sup>

Based on these findings, key recommendations included:

- Strengthening the role in providing initial technical assistance to applicants and administrators, including estimating start-up costs, projected enrollment, and state and federal assistance available;
- Requiring the DOE to develop a monitoring system to include a comprehensive list of financial indicators to identify charter schools at high risk for financial problems, and annually reporting those schools;
- Ensuring that training and technical assistance is offered to schools in financial decline; and
- Requiring an auditor to report a state of

financial emergency, as is the case for local entities, including district school boards.<sup>43</sup>

Pursuant to these recommendations, the Legislature enacted the following provisions:

- The DOE is required to provide technical assistance to charter school applicants;<sup>44</sup>
- The charter school governing body must review and approve the audit report, including monitoring financial recovery plans, if present;<sup>45</sup>
- The DOE is required to develop a uniform, online accountability report for the charter schools to complete annually;<sup>46</sup>
- Financial emergency conditions apply to charter schools;<sup>47</sup> and
- The governing board is required to attend governance training approved by the DOE that includes sunshine laws, conflicts of interest, ethics, and financial responsibility.<sup>48</sup>

The DOE has additionally made available on its website several tools to be used at the time of application review:

- A Model Florida Charter School Application;
- A Florida Charter School Application Evaluation Instrument;
- A Business Plan for Charter Schools;
- A Revenue Estimate Worksheet; and
- New Charter School Applicant Training.<sup>49</sup>

### **Auditor General**

The Auditor General noted the following findings in its recent report on charter schools in operation during the 2005-2006 fiscal year:

- 14 of the 340 charter schools during that year closed;

<sup>43</sup> *Id.* at 12.

<sup>44</sup> ch. 2006-190, L.O.F.; s. 1002.33(6)(g), F.S., requires the DOE to: "...offer or arrange for training and technical assistance to...applicants in developing business plans and estimating costs and income. This assistance shall address estimating startup costs, projecting enrollment, and identifying the types and amounts of state and federal financial assistance the charter school would be eligible to receive. The department may provide other technical assistance to an applicant upon written request."

<sup>45</sup> ch. 2006-190, L.O.F.

<sup>46</sup> *Id.*

<sup>47</sup> ch. 2006-190, L.O.F.; s. 1002.33(7)10., F.S. *See also*, s. 1002.33(9)(g), F.S., and s. 218.503, F.S.

<sup>48</sup> ch. 2007-234, L.O.F.; s. 1002.33(9)(k)4., F.S.

<sup>49</sup> [http://www.floridaschoolchoice.org/Information/Charter\\_Schools/](http://www.floridaschoolchoice.org/Information/Charter_Schools/); Last checked October 26, 2007.

<sup>40</sup> *Id.* at 9.

<sup>41</sup> *Id.* at 10.

<sup>42</sup> The recent Auditor General report indicates that a number of EMO's have forgiven debt, thereby contributing to a reduction of schools in financial deficit.

- Five of the 326 charter schools that were in operation for FY 2005-2006 did not file audit reports as of the date of the report;<sup>50</sup>
- About 25 percent, or 79 of the 321 charter schools that filed an audit reported a deficit unreserved fund balance as of June 30, 2006;<sup>51</sup>
- 54 charter schools did not file an audit in a timely manner;
- Audit reports for 20 charter schools revealed findings of material weaknesses in internal controls;
- Audit reports for 15 charter schools included a CPA statement questioning the schools' ability to continue operating; and
- 73 charter schools met one or more financial emergency conditions.<sup>52</sup>

The Auditor General indicated that for 51 charter schools, the CPA expressed a concern that the school did not adequately separate certain duties and responsibilities. Therefore, the charter school's ability to adequately protect assets was compromised, thereby increasing the chances that errors or fraud would not be timely discovered.<sup>53</sup>

### **School Grading of Charter Schools**

For the Commissioner of Education to designate a school as eligible to receive a school grade, the school must have at least 30 eligible students with valid FCAT assessment scores in reading and math in both the current and previous years.<sup>54</sup>

Alternative schools, or schools with a targeted student population of students at risk for dropping out, are graded through a school improvement rating.<sup>55</sup>

The following table provides school grades for charter

schools in the 2006-2007 school year:

Grade	Schools Earning Grade	Percent
A	97	44.7 percent
B	42	19.4 percent
C	37	17.1 percent
D	17	7.8 percent
F	11	5.1 percent
I <sup>56</sup>	1	0.5 percent
P <sup>57</sup>	12	5.5 percent

The following table provides school grades for non-charter public schools in the 2006-2007 school year:

Grade	Schools Earning Grade	Percent
A	1,380	51.4 percent
B	427	15.9 percent
C	552	20.5 percent
D	202	7.5 percent
F	72	2.7 percent
I	4	0.1 percent
P	50	1.9 percent

School grades of charter and non-charter public schools appear comparable, with non-charter public schools faring slightly better.<sup>58</sup> The finding that grades are comparable is significant, in light of a conclusion by OPPAGA that charter school students tend to be academically behind when entering charter school, in comparison to students remaining in non-charter public schools. This is measured by lower average math and reading scores on the FCAT (except fifth grade math, where scores were equal to those of students staying in other public schools).<sup>59</sup>

<sup>50</sup> Auditor General, *supra* note 5. The Auditor General noted that the 25 percent represents a slight decline from the prior year (28 percent), and explained it as follows: nine of the charter schools reporting deficits last year closed; financial emergency conditions provided in statute took effect; and some charter schools eliminated deficits through debt forgiveness or fee modification by management companies. Fund balance information for three charter schools was not identifiable because the balances were reported in combined financial statements.

<sup>51</sup> *Id.* at 3.

<sup>52</sup> *Id.*

<sup>53</sup> *Id.* at 4.

<sup>54</sup> Rule 6A-1.09981(4), F.A.C.

<sup>55</sup> s. 1008.341(2), F.S. The proposed rule addressing the school rating system for alternative schools is 6A-1.099822.

<sup>56</sup> As provided in Rule 6A-1.09981, F.A.C.: Unless performance data can be determined to accurately capture school progress, the Commissioner of Education (COE) is authorized to withhold the designation of a school's performance grade or assign the school a lower grade. If less than 90 percent of the student population eligible for inclusion is assessed, the school's grade is an incomplete (I) for at least 30 days or until the COE determines that the data accurately reflects the school's performance.

<sup>57</sup> "P" indicates the points only designation option available to an alternative school in lieu of a grade.

<sup>58</sup> Glenda Todd, DOE, White Paper dated Oct. 8, 2007.

<sup>59</sup> OPPAGA, *Charter School Performance Comparable to Other Public Schools; Stronger Accountability Needed*, Report No. 05-21, page 4 (April 2005).

### **Class Size at Charter Schools**

Through 2005-2006, class size compliance was measured at the district level.<sup>60</sup> Charter schools were not included in the district averages as they were independently governed public schools. Starting with the 2006-2007 school year, however, progress toward class size reduction was measured at the school level.<sup>61</sup> The standard statutory remedy for correcting class size non-compliance for all public schools, including charter schools, consists of a transfer of funds from operating monies to capital outlay.<sup>62</sup>

For the 2006-2007 school year, prior to class size reduction appeals, about 25 percent of charter schools (88 charter schools) did not comply with class size requirements. This compared with 177 non-charter district schools, or about six percent. After class size reduction appeals, 49 charter schools, or about 14 percent, did not meet class size caps, in contrast to 89 traditional schools, or about three percent. These non-compliant schools had funds transferred from the operating class size reduction allocation to fixed capital outlay for class size reduction.<sup>63</sup>

### **Student Demographics**

In a review of national data comparing student demographics at charter schools to other public schools, African-American students make up more of the student population in charter schools as a percentage than in non-charter public schools, and white students comprise less. Hispanic students are generally equally represented in charter and traditional schools.<sup>64</sup> Low income students eligible for free or reduced-price lunch are of approximately equal proportion in both charter and non-charter schools.<sup>65</sup>

In-state, charter schools reflect the following student demographics:

- White students—42 percent;
- African-Americans—23 percent;
- Hispanics—30 percent; and

- Other (Asian, American Indian, or Multiracial)—five percent.

Females and males compose exactly 50 percent each of the student population at charter schools.<sup>66</sup>

The following figures reflect student demographics at non-charter public schools:

- Whites—47 percent;
- African-Americans—23 percent;
- Hispanics—24 percent; and
- Other—six percent.<sup>67</sup>

Females represent 49 percent of the student population, and males represent 51 percent at non-charter public schools.

The percent of students with free or reduced-price lunch status at non-charter public schools is 46 percent, in contrast to 35 percent of charter school students.<sup>68</sup>

Florida's data is comparable to national statistics with the exception of students who are eligible for free or reduced-price lunches. In Florida, more of these students on a percentage basis are being served in non-charter schools than compared nationally.

### **Survey Responses**

Staff sent a charter school accountability survey to the Florida Consortium of Public Charter Schools for distribution to charter schools in the state. The Consortium forwarded the survey to all charter schools currently in operation. A follow-up request was sent shortly after the deadline. Out of 347 charter schools, staff received 153 completed surveys, a 44 percent response rate.<sup>69</sup>

<sup>60</sup> See s. 1, art. IX, State Constitution and s. 1003.03, F.S.

<sup>61</sup> s. 1003.03(2)(b)2., F.S.

<sup>62</sup> s. 1003.03(4)(a), F.S.

<sup>63</sup> Todd, *supra* note 49; See s. 1003.03(4)(a), F.S., for remedies for class size non-compliance.

<sup>64</sup> Forman, *supra* note 2, at 858-859, indicates that 31 percent of charter students are African-American, in contrast to 17 percent of district school students. White students comprise 45 percent of the charter school population and 58 percent of district school students.

<sup>65</sup> Forman, *supra* note 2, at 859, indicates that 44 percent of district school students and 42 percent of charter students are eligible for free or reduced-price lunch.

<sup>66</sup> [http://www.floridaschoolchoice.org/information/charter\\_schools/files/fast\\_facts\\_charter\\_schools.pdf](http://www.floridaschoolchoice.org/information/charter_schools/files/fast_facts_charter_schools.pdf); Last checked October 12, 2007.

<sup>67</sup> DOE, *Survey 2 Final Data, 2006-2007 School Year, Florida Charter Schools Compared With Traditional Public Schools*, Received October 18, 2007.

<sup>68</sup> *Id.*

<sup>69</sup> Staff received two completed surveys long after the second deadline; therefore, they are included for purposes of total number of surveys received, but not for tabulation due to time constraints.

***Assistance in Financial Matters***

When asked if the school received assistance in drafting the initial annual financial plan in the application as a charter school, 48 percent responded affirmatively. Ninety-three percent of those helped considered it very useful. An education management organization (EMO) was the primary source of assistance (66 percent), followed by school districts and private consultants. For those not helped, only 29 percent were aware that it was available.

Regarding financial management assistance, 59 percent indicated that they received assistance, in contrast to 41 percent who did not. Again, the majority of those who responded that they received assistance, 42 percent, received it from an EMO. This was followed by 25 percent, who received it from the DOE, and 21 percent from a district school board. Assistance ranged from financial workshops and budget conferences (DOE) to technical support (district school board) to actual financial services (EMO).

The overwhelming majority of respondents, or 91 percent, indicated that they do not need additional assistance in financial management.

***Other Financial Issues***

All but one school indicate that the sponsor requires financial information to be reported regularly.

Fifteen percent of respondents indicate that their school experienced a financial deficit in 2005 to 2006. The number of schools with a financial deficit decreased to seven percent in 2006-2007 and 2007-2008. The following were identified as reasons for financial deficit: lack of funding sources beyond the FEFP, insufficient enrollment, failure to receive an expected grant, expectations exceeding revenues, a hefty management fee, and closure for code violations.

***School Grading***

Sixty-seven percent of respondents indicate that their school is graded. Most respondents disagreed that their sponsor helps improve performance, but for those that did agree, assistance was noted in the form of common diagnostic testing, access to a benchmark test, progress monitoring, provision of a reading coach, and instructional support through training or curriculum development.

***Class Size***

A full 95 percent of survey respondents indicate compliance with class size. Those who report that their school is non-compliant typically cite budget and facility constraints, and non-receipt of two mill money and Classrooms-for-Kids funding.

***Miscellaneous***

Fifty-seven percent of those responding indicated that they received a charter school contract sample, with 94 percent finding it helpful. A district school board provided the majority of contracts (two-thirds of the time), and a few respondents indicated that the terms were non-negotiable.

About equal numbers of schools are self-managed (49 percent) or governed by a management company (51 percent). Respondents identified 11 EMOs as providers of management services. Fees ranged from three to 15 percent of current year budget.

Forty-nine percent of the responding schools have a student population ranging from 100 to 500 students. Twenty-seven percent have a student population of up to 99 students, and 24 percent have more than 500 students. For schools whose student population is at capacity, 82 percent maintain a waiting list. Sixty-eight percent of respondents admit students through a lottery.

Eighty-eight percent have a written conflict of interest policy, and seven percent indicated that they have at least one board member that provides services for compensation to the school.

Charter schools, on average, receive 77 percent of total funding in the form of FEFP funds.

**Exclusivity Hearings**

The SBE considered exclusivity for 38 school districts. The SBE denied the following school districts exclusivity based on an inability to demonstrate a discernable history of sponsoring charter schools within the past four years: Baker, Charlotte, Clay, DeSoto, Gilchrist, Hardee, Jefferson, and Suwannee. Of the remaining 30 school districts, only Orange, Polk, and Sarasota received exclusivity. The SBE specifies through rule that the status of exclusive authority is effective on a year-to-year basis, from July 1 after the application deadline to June 30 of the same fiscal year.<sup>70</sup>

<sup>70</sup> Rule 6A-6.0783(4) and (7), F.A.C.



## RECOMMENDATIONS

■ It is recommended that the Legislature require charter schools that do not receive a school grade under s. 1008.34, F.S., to provide more definitive, comparative information to parents and the public regarding the school's academic performance. Additionally, it may be advisable for the Legislature to consider clarifying the definition of an alternative school.

■ Regarding class size non-compliance, initial numbers are considerable, particularly prior to fund transfers. Starting with 2006-2007, non-compliant charter schools were subject to the same funding transfer as other public schools. It is unlikely that transfers would ensure class-size compliance in a charter school given that penalty could be mitigated based on the nature of the facilities, such as whether they are leased, and could be funded through capital or operating accounts. As charter schools are subject to controlled enrollment, in contrast to other public schools, it is recommended that operating appropriations for Full-Time Equivalent (FTE) be limited to the designated constitutional class size caps.

■ Although survey participants resoundingly indicated that they do not need financial management assistance, financial difficulties remain pervasive, especially during the initial years of operation. Given this, a preventive approach at the time of application is recommended. Most survey respondents indicated that they have not availed themselves of the various resources that DOE has provided in recent years. Similarly, less than 50 percent of survey respondents indicated that they received assistance with business plans from any outside resource. Therefore, it is recommended that existing DOE tools be expressly identified in statute, along with a requirement that all charter school applicants and reviewing sponsors use them. This will ensure not only a higher level of accuracy in the determination of financial viability, but also uniformity among sponsors during the review process.

Additionally, it is recommended that the Legislature provide for an expedited review where a charter school is determined to be in financial difficulty, based on a series of indicators, prior to the threshold financial emergency determination. These indicators could include the following: a year-end financial deficit; a substantial decline in student enrollment without a commensurate reduction in expenses; insufficient revenues to pay current operating expenses or long term expenses; disproportionate administrative expenses; excessive debt; inadequate fund balances or

reserves; failure to meet financial reporting requirements; weak financial controls or other adverse financial conditions identified through an internal audit or annual audit conducted pursuant to s. 218.39, F.S.; negative financial findings cited in Auditor General or OPPAGA reports; and excessive expenditures on specific items such as car leases. A charter school that experiences any of these indicators could be subject to an escalating series of sanctions ranging from a corrective action plan with mandatory reporting on its implementation to the imposition of a plan by the SBE or possible termination of the charter if the school fails to correct the deficiencies within a specified timeframe.

■ As an applicant who has been denied sponsorship by a district school board still retains the ability to appeal the decision to the SBE, it is recommended that clarification be provided that once exclusivity is granted, the district school board continues to retain this status. Specifically, a rebuttable presumption would apply that the district school board is operating in good faith in its capacity to review applications.

■ Although the majority of respondents report having a conflict of interest policy, a full seven percent self-reported that at least one board member receives compensation for school services. As inadequate separation of duties and responsibilities is identified as financially problematic by the Auditor General, legislation is recommended to require independent charter school boards, such that no member of the board is authorized to receive compensation for services.

■ The Legislature may wish to consider expanding the causes for nonrenewal or termination of a charter to include charter schools that exhibit one or more conditions of financial emergency for two consecutive years.

These recommendations build upon the series of reforms enacted by the Legislature in the last few years. If significant improvement does not ensue in the area of financial accountability, it may be advisable for the Legislature to reassess who is best suited to provide financial governance to charter schools.