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Representative Mindy Greiling  
253 State Office Building

Representative Harry Mares  
401 State Office Building

Representative Alice Seagren  
477 State Office Building

Dear Representatives Greiling, Mares and Seagren:

Representative Entenza's report *Charter Schools And The Use Of Public Funds* speaks of the promise of charter schools. As discussed below, charter schools do indeed hold great promise for improving the quality of public education throughout our state and nation. But contrary to the report's stated intention to help the charter sector, please be aware that this report has caused immediate damage to the reputation charter schools have worked so hard to earn. In light of the great strides being made by charter schools, it is very frustrating that such an unbalanced account of charter schools would be manufactured and publicized by a state legislator.

Rather than making it easier for charter schools to improve their business practices, one-sided reports such as these scare away potential sponsors, alarm the schools' vendors and deter prospective students—all of which are needed for the schools' success. Given growing evidence that charter schools are succeeding in bringing to public education higher student achievement, more parental involvement and innovative learning programs and business organization, we must wonder whether the ultimate victims of such reports are the children themselves whom we all strive to serve.

Accountability for fiscal and student performance is paramount. Charter schools, unlike traditional district operated schools, face the ultimate tests for accountability: be successful, or the school will close. The fact that a few schools have closed is a sign that this accountability is working. It may also be a sign of the "growing pains" in this new young sector—mistakes we all agree are to be avoided in the future. Yet the mistakes of a few should not be used to tarnish the many fine schools that are working.

Because accountability is so important, charter schools conduct annual audits, make available their budgets and contracts as public information, continually strive to improve their operations, and measure student performance. Representative Entenza's report suggests quite the opposite. It jumps to conclusions by using audit statements out of context, leaving the reader the impression that charter schools are insolvent at best; fraudulent at worst. Such conclusions, as shown below, are simply erroneous.

Finally, there are matters important to strengthening accountability in the charter sector that the report does not identify or address. If we are to fulfill the promise of charter schools as envisioned by the Minnesota Legislature when it enacted the nation's first charter law in 1991, sponsorship needs strengthening. Below are some proposed measures to ensure that charter schools can become true models for public school accountability.

### **Charter Schools: Evidence of Success**

In 1991, the Minnesota legislature passed the nation's first charter law. The significance of this law is that it created the opportunity to develop new schools, and allowed these schools the room to innovate and specialize by freeing them from many of the rules and regulations that make change such a slow process in traditional public schools. The hope was to speed the delivery of learning innovations so that all children would receive the education they deserve. The Legislature's visionary work was recognized last year by the Ford Foundation and the Kennedy School at Harvard as one of the significant innovations in American government.

Since then, about 70 schools have been created in Minnesota, with an estimated 1,800 schools nationwide. The charter movement is still in its infancy, so hard evidence is difficult to come by. But increasingly, research points to the success of the charter sector:

- "To date, more than 50 reports on the progress, success rates and achievement of charters have been completed by states, universities, and regional and national groups. More than 80 percent show that charter schools are achieving their goals."--Charter Schools Today: Changing the Face of American Education
- Two-thirds of charter schools have a waiting list. --The State of Charter Schools Third-Year Report, 1999
- An estimated 90% of charter schools use student achievement tests, along with other measures, to report school success. --The State of Charter Schools Third-Year Report, 1999
- Charter schools hire more teachers with higher skills, and reflect this more so than public schools in their compensation. --Would School Choice Change the Teaching Profession?
- "Wherever a large number of charters are clustered, traditional schools have begun to behave differently in order to keep up, and in many states their presence is accelerating system-wide school improvement." --findings from Charter Schools: Changing the Face of American Education
- Nearly 7 of 20 charter schools are founded to realize an alternative vision of schooling; many have atypical grade configurations. --The State of Charter Schools Third-Year Report, 1999

Here in Minnesota, there are many examples of innovation and success:

- The Minnesota New Country School in Henderson has developed a project-based learning program that brought national attention when its students discovered a problem with deformed frogs. Because of its learning program, the school was able to quickly implement all 24 standards in the profiles of learning. The school has also broken new ground with its teacher cooperative, designed to bring new career challenges to those in the teaching profession. The Gates Foundation has recently recognized the significance of the learning and management models by awarding a \$4.5 million grant to replicate the learning model and the teacher cooperative.
- The Twin Cities Academy in Saint Paul saw test scores rise dramatically in a single year. In its first year, the percentage of eighth graders who scored above the national average on the Basic Battery of the Mat 7 national achievement test increased by 23%, while scores rose by 17% on the Stanford 9 test.

- Other schools successfully reach underserved populations. City Academy, recognized by President Clinton, has helped many kids graduate who otherwise would have dropped out of school. HOPE Academy strives to engage Hmong parents in their children's education, which is a cultural shift for many Hmong. Bob DeBoer's school, New Visions, uses brain stimulation techniques to help the learning disabled.

The point of the charter movement is not to be a silver bullet for public education. It is to aid in the discovery and development of new schools that work better for our children. Accountability must be viewed in this context.

### **Accountability Is Not Synonymous with Audits**

Accountability is a concept larger than audit statements. Independent audits are an important mechanism for identifying and correcting management and financial issues as they arise. But they are limited as a way to evaluate whether public funds are being properly used, especially if they are used out of context.

First, most charter schools are still very young, and are on a learning curve with respect to management and business practices. The issues they face are not a result of mismanagement, but rather, are a part of their effort to learn how best to manage. Older audits, for example, of course do not show that corrective actions have been taken. The Minnesota Association of Charter Schools (MACS) in particular, is working diligently with charter schools to strengthen management practices (see MACS detailed response to the Entenza report at their website [www.mncharterschools.org](http://www.mncharterschools.org)). Second, audit statements give no sense of the comparison between the charter sector and school districts. It may not be true that charters are performing less well than the district schools. Third, audits in and of themselves provide limited information. To get a true picture, additional documents should be consulted. Fourth, conclusions based on audits are relevant only to the school being audited. It is simply erroneous to assume that problem in a few schools means there are problems in all schools.

Below are some examples of the mistakes that arose in this report as a result of using audits as the sole source for measuring accountability.

Management contracts. *The State of Charter Schools: Third-Year Report* notes that most charter schools are started because the founders wish to realize an alternative vision for schooling. They wish to concentrate their energies on helping students learn. Moreover most schools, being small, cannot afford to run a full administration complete with accountants and business managers. Many schools turn to management contracts to run the business side of the schools. Good management contracts are therefore part of **the answer to** accountability in charter schools, and a number of efforts are underway to ensure sound management contracts. For example:

- MACS has been working with charter schools to improve their management contracts, and many fine examples of productive charter school-management company relationships are emerging. These include charter school contracts with LearnNow and Designs for Learning.
- It should be noted that one of the schools with a problem management contract fired its management company, which is the proper, accountable action to take.
- Charter boards can and do monitor and rate managers. In some cases, representatives meet monthly with their school boards.
- All management contracts are public documents.

School Board Composition. Charter schools have also been taking steps to ensure the independence and professionalism of their school boards. For example:

- MACS has been working with schools to eliminate conflicts of interest. Representatives from management companies have stepped down from charter boards, even though they are

allowed to serve on boards under IRS protocols. There remain only four schools that have management company representation on the board.

- The IRS is very careful in the initial approval process of charter schools (i.e., their nonprofit status) to ensure that all board member relationships are disclosed. Particular attention is paid to IRS approvals where private managers are involved.
- The Department of Children Families and Learning (CFL) has mechanisms in place to identify potential conflicts of interest when leasing space qualifying for lease aid. To our knowledge, CFL has properly raised questions and received satisfactory responses from schools who asked.
- To the best of MACS' knowledge, no charter board members receive compensation, although it is allowed when set at fair pay for services rendered.
- According to MACS, all charter schools have formally adopted conflict of interest policies, similar to state law requirements for elected traditional school district boards. In order to receive lease aid, charter boards must have a conflict of interest policy—a condition encouraged by MACS.

#### Unsubstantiated or Incorrect Information.

- Audits should be submitted on time. (However, there is some question whether the data in the report is correct.) Not all school districts met the deadline.
- While the report lists nine schools in the section on management companies, five of the schools listed in this section do not have management companies.
- The report implies that schools are not making information available that could be used to judge the use of public funds. To the contrary, the audits are clearly public. All management contracts are public. Minutes of school board meetings are available to the public. All schools have annual budgets that are also public information. All leases are filed with the CFL, and undergo thorough review by the CFL before they are approved. Finally, pertaining to the problems faced by the two charter schools that have since closed, information was available to the CFL at least a year prior to the schools' closures. It is my understanding that in one instance, CFL was aware of the situation. It chose not to inform the sponsor and failed to communicate with the charter school board, thereby compounding the problem.
- It is common for nonprofits that do not have a full time business manager to have a "reportable condition" in their audit, to draw attention to a lack of segregation of duties in the business office. In Minnesota, a high percentage of traditional school districts, as well as charter schools, have a similar finding in their audits. If an organization is small and the number of staff handling the accounting function is likewise small, this reporting condition is typical in audits and is intended simply to inform the board that the condition exists. This does not violate national accounting standards, nor is it intended to suggest that additional staff be hired. In no way does it suggest, as the report suggests, that charter schools are not providing "minimally adequate supervision."
- The report refers to excessively expensive management contracts, when in fact some of the examples used are not management contracts at all, but contracts for teachers who provide the entire learning program in schools. In one instance where the contract was characterized as a "management contract," the overall cost for administration was only 2.7% of the entire budget. This contract is in fact an exemplary model of what can be achieved in charter schools. This small school paid its teachers an average of \$6,000 per teacher more than the state average, spent only 60% of its budget on salaries (leaving far more to spend on students' needs), and ended the year with a fund balance of 17% of its budget.
- The report states that schools pay lease aid far in excess of market rates. In fact, the CFL review process uncovered only two leases that it deemed inappropriately high, and in these cases lease aid was not granted beyond what was determined to be reasonable. Many schools have leases that could be considered below market rate.
- There have been problems with a few charter schools. The report seems to use these schools as the basis for concluding that all charter schools have similar problems. Each charter is

self-governing, and it is simply unjustified to paint the entire charter sectors with the problems of a few.

### Unique Charter School Accountability

The Massachusetts State Department of Education writes that, “Perhaps the most revolutionary innovation of charter schools, often overlooked or taken for granted, is the concept itself: extraordinary freedom at the school level and genuine accountability for results.” The major reason we have charter schools is that the traditional district public schools were failing to reach too many students. Freedom from many regulations was granted in exchange for the opportunity to innovate and experiment with new learning models and new forms of business organizations. In short, charter schools were to be *different*.

It is incumbent upon us then, to think how accountability systems might also look different. Subjecting charter schools to the same plethora of rigid rules and regulations that are imposed on district schools is a sure path to killing any and all chances of developing different schools. Bryan Hassel, a respected expert on charter schools, writes in *The Charter School Challenge: Avoiding the Pitfalls, Fulfilling the Promise*:

"To say that charter schools need infrastructure is not to say that they need to rebuild administrative systems like those from which many charter entrepreneurs fled in the first place. Instead, charter schools and their supporters need to create new forms of infrastructure. They need to develop structures that provide vital support for charter schools while respecting their autonomy, structures that are driven by the needs of schools (and ultimately students) rather than by the mandates of a higher bureaucracy, structures in which schools are customers, not subordinates on organizational charters."

Such accountability exists in the most rigorous of all forms: schools must persuade their students to enroll and to remain enrolled, or they will close. Nevertheless, charter schools agree that other forms of accountability are also imperative. Accountability is of utmost concern to charter schools, who take very seriously their mission to educate our children. Based on the past ten years of experience, the charter sector would recommend the following measures to improve charter accountability:

- Strengthen sponsorship. Sponsorship under Minnesota law means both the approval and the oversight of the school through the term of its charter. Clearly some sponsors have provided inadequate oversight. Present law requires a second, confirming approval by the Commissioner even where the state is not the sponsor. But the CFL cannot provide the necessary level of oversight because it states that it is overwhelmed with its duties pertaining to charter schools, and feels it cannot keep pace with charter school sponsorship duties. Strong sponsors are critical to ensuring sound management of charter schools. This is best provided by the establishment of a separate board, with responsibility for the state role in sponsorship and oversight of charter schools. This board would not be diverted with the considerable responsibilities of traditional district schools, and could turn its attention to developing accountability systems that are unique to the issues of charter schools.
- Broaden the composition of boards. One of the beauties of many charter schools is their “mom and pop” nature—they truly involve the community. However, their boards would be well served if there were greater opportunity to include people of diverse experience, including those more familiar with business management and running start-up organizations. Strong, diverse experienced boards should be in place and should establish clear distinct lines between the school and any contracted services, including management. State law should broaden the composition of charter schools boards.
- Reconsider facilities leasing. While leases are approved through a comprehensive process with the DCFL, charter schools admit that facility leases are one of their biggest hurdles. Under the current requirements, non-profit building companies play an important role in the

success of charter schools by allowing for charter schools to secure educationally appropriate space. Without a building company, many schools would not be able to find appropriate affordable space. All the problems with leasing, however, grow out of the decision at the beginning, that charter schools should not own the property they occupy. That may have been appropriate in 1991, but a decade later it should perhaps be reconsidered.

- Develop a resource center. As discussed above, charters are small start-up organizations, and many encounter steep learning curves as they address business and managerial concerns. Charters should have the opportunity to share their learning experiences with one another, and have ready access to best practices, as well as technical information as needed. If such a resource were available, fewer schools would have to learn by trial and error.

I firmly believe, and the evidence is gaining strength over time, that charter schools are an exciting and important addition to public education. Charter schools expect to be held fully accountable for educational results and the use of public funds. In this spirit, I request your help in taking steps to strengthen the charter sector, in a manner consistent with the original legislative intent of creating different and innovative schools, so that all children receive the education they deserve.

Sincerely,

Ember Reichgott Junge