



**JIM PETRO**  
**AUDITOR OF STATE**

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STATE OF OHIO

OHIO DEPARTMENT OF EDUCATION  
COMMUNITY SCHOOLS  
OPERATIONAL REVIEW

FEBRUARY 7, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To: Members of the State Board of Education  
Susan Tave Zelman, Superintendent of Public Instruction

The State Auditor's Office is pleased to provide the completed operational review of the Ohio Community Schools Program. As a result of increasing system problems in the Community School Program, the Auditor of State (AOS) recommended an operational review of key program components. AOS determined that an operational review of the administration of the Program could identify systemic problems and, through an examination of programs in other states, suggest resolutions.

The operational review focused on five core aspects of the Community Schools Program including Community School Law, Community School Monitoring and Program Oversight, Community School Funding, Community School Facilities and Transportation of Community School Pupils. These areas are important components in the Community School Program and are integral to continued educational innovation through community schools. The operational review contains 109 recommendations which the Ohio Department of Education, the State Board of Education and the General Assembly should consider in developing and refining plans to resolve the identified problems in the Community School Program.

The State Auditor's Office conducted this independent assessment of the Community School Program with the objective of providing recommendations to enhance accountability, support educational innovation and improve community schools' chances for success in Ohio's educational environment. Best-practices from other Charter School Law states are highlighted throughout this report to provide guidance and encouragement to those agencies responsible for the administration of the Community School Program.

An executive summary has been prepared which includes the project history, a summary of each of the five areas including findings and recommendations, the purpose and objectives of the performance audit, and a brief history of charter schools and community schools in Ohio.

The operational review has been provided to ODE and its contents discussed with its staff. ODE has been encouraged to use the results of the operational review as a useful resource in improving the Community School Program.

Additional copies of this performance audit can be requested by calling the clerk of the bureau at (614) 466-2310 or the toll free number in Columbus, 800-282-0370. In addition, this performance audit can be viewed online through the State Auditor's Web site at <http://www.auditor.state.oh.us> by choosing the *online audit search* option.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro", written over a large, stylized "X" mark.

JIM PETRO  
Auditor of State

February 7, 2002

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# Executive Summary

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## **Introduction**

Ohio, like other Charter School Law states, has encountered implementation problems in developing its community (charter) school program. In some cases, unrealistic expectations have created an environment for school failure. In other cases, statutory improvements need to be made in the areas of facilities, transportation, and monitoring and oversight. Some community school operators are unprepared to run an organization of the size and complexity of a public school, particularly on the business side. Management companies are sometimes used to fulfill these functions, but not without substantial financial impact to the school. Finally, many community schools encounter resistance from the local school district in which they are located. This resistance is not unfounded. A U.S. Department of Education study found that in all but the largest of school districts, ten or more charter schools create a critical mass that threatens political constituencies and can force painful budgetary changes.

In all Charter School Law states, charter schools and school choice debates tend to polarize political discourse. Public researchers, management companies and lobbying groups square off against teachers' unions on high visibility issues, leaving little room for comprehensive examination of systemic flaws. School funding issues remain central to the debate and illustrate failings in both traditional public schools and charter schools. Issues of control versus innovation and appropriate levels of oversight permeate the discourse. However, high levels of media attention to community schools and several dramatic school failures have underscored the concerns of community school opponents in Ohio. Several examples of community school problems that underscore these concerns are shown below:

- Riser Academy opened in September 1999 but was plagued by unfinished construction and a lack of computers, textbooks and other teaching materials. Projected student enrollment for Riser Academy was also overstated and the Academy experienced an enrollment decline because of the abovementioned problems. The school received approximately \$845,000 in monthly payments from the Ohio Department of Education<sup>1</sup> (ODE) and as of February 11, 2000, ODE estimated that \$332,283 was due back for enrollment overpayments. Riser also owes more than \$5,000 in misspent funds, \$11,000 to the State Teachers Retirement System and \$3,600 in Federal taxes. The school closed on February 15, 2000.

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<sup>1</sup>The Ohio Department of Education is the administrative unit and organization through which the authority of the State Board of Education and the duties of the Superintendent of Public Instruction are administered. Throughout this report, the Ohio Department of Education is used to refer to both the State Board of Education and its administrative unit.

- The Lucas County Educational Service Center(LCESC) announced in February 2000 that it was suspending operations of Monroe Academy and would not renew the charter as a result of administrative disputes, including disagreements about a lease. The LCESC took control in March and allowed the academy to operate through the end of the year. The school officially closed at the end of FY 1999-00.
- In November and December 2000, High Life Youth Community and High Life Youth Development schools suspended operations. The two failed High Life schools owe a combined debt of over \$2.5 million for back taxes, employee benefits, loans, supplies, services and overpayments by ODE.
- Rhea Academy of Dayton has developed a \$144,000 deficit through June 2000, its first year in operation, in part, due to lower than projected enrollment. The school is continuing to operate and is now in its third year of operation. Dayton Daily News reported Rhea Academy was being sued for \$76,000 in delinquent payments to a construction company; however, the debt is currently being settled by paying \$10,000 a month. On December 18, 2001, the Auditor of State (AOS) informed the governing board of Rhea Academy that the school's financial records were incomplete and were not able to be audited.
- During its first year of operation (FY 2000-01), ECOT, the State's first online school, was plagued with equipment shortages and personnel problems. In addition, controversy over the true number of students enrolled during the year resulted in a special audit conducted by the Auditor of State. The results of the audit revealed that, as of the March 30, 2001, ODE Basic Aid Funding Calculation, ECOT was overpaid \$1.7 million for the months of September and October of 2000. Currently, ODE and ECOT are negotiating a settlement of overpayments made to ECOT during the year.
- At the end of FY 2000-01, Harmony Charter School in Cincinnati was evicted from its facility. ODE paid the school \$464,946 in July and August but suspended the September payment after learning that the school had not obtained a new facility. In a Cincinnati Enquirer expose, Harmony School pupils were noted meeting in Cincinnati public library locations– ODE had renewed the School's charter and was unaware that a new facility had not been obtained. Harmony Charter School located a new facility and resumed regular classes with over 400 students at the end of September 2001.
- A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community School program violates the state Constitution and state laws. The lawsuit, according to the Dayton Daily News, alleges that the state education officials have not enforced state laws governing charter schools and that operation of the schools violates the Ohio constitution because the schools are not administered by local elected school boards. Currently, the suit is still pending.

Compared to other Charter School Law states, Ohio community schools have a failure rate twice the national average. In most cases, community school problems and closures occur because of financial problems or mismanagement, which is consistent with national trends.

As of FY 2001-02, almost 100 community schools have been in operation in Ohio. **Table 1-1** shows the number of schools, by sponsor, from the initiation of the community school program through September 2001.

**Table 1-1: Ohio Community Schools by Sponsor**

Sponsor	Number of Schools	Percentage of Total Schools Sponsored
State Board of Education <sup>1</sup>	79	80.0%
Lucas County Educational Service Center <sup>2</sup>	12	12.1%
Cincinnati City School District	3	3.0%
University of Toledo <sup>3</sup>	2	2.0%
Dayton Public School	1	1.0%
Toledo City School District	1	1.0%
Tri-Rivers Education Computer Association	1	1.0%
<b>Total Number of Schools since Implementation</b>	<b>99</b>	<b>100%</b>

**Source:** Legislative Office of Education Oversight (LOEO) 1<sup>st</sup> Year Report, 2<sup>nd</sup> Year Report and the current listing of Community Schools open as of September 2001.

<sup>1</sup>SBE includes four closed schools.

<sup>2</sup>LCESC includes three closed schools.

<sup>3</sup>University of Toledo includes one closed school.

Although the Community School Program has been in existence for four years and, as a system of public schools falls under the purview of the Ohio State Board of Education (OSBE) and the Ohio Department of Education (ODE), OSBE and ODE have not taken a leadership role in monitoring, promoting or assisting community schools. ODE has limited its role in monitoring and assisting community schools to state-sponsored schools. Because of ODE's lack of involvement in the Community School Program, significant systemic problems have developed. Increasingly, community schools have exhibited problems that may have been avoided through greater ODE involvement in the funding and technical assistance processes. The Auditor of State (AOS) determined that an operational review of the administration of the Community School Program could identify systemic problems and, through an examination of programs in other states, suggest resolutions.

AOS has urged ODE to reconsider its role in the Community School Program and to reorganize the Office of School Options (OSO) to better meet the needs and requirements of the Program. ODE's prompt response to the recommendations contained in this operational review is crucial as the Ohio General Assembly is considering legislation that would remove ODE from the Community School Program and assign oversight for the program to an independent commission. To demonstrate its determination to correct systemic problems within the Program, ODE should finalize its management plan and be able to demonstrate substantial progress in fully adopting these recommendations and improving its role in the Community School Program within the next 60 days. If ODE is unable to demonstrate substantial gains in improving its role in the Community School Program within the next 60 days, the Legislature should consider establishing a new commission to guide and manage Ohio's Community School Program. AOS also encourages the Legislature to adopt the recommendations contained within this review.

The Auditor of State's Office performed this operational review of Ohio's Community School Program beginning in September 2001. The operational review is an independent assessment of the Community School Program, particularly in the areas of current management and oversight of community schools, current laws, ODE oversight functions, funding, facilities and transportation. The operational review was designed to provide recommendations which will increase the stability and enhance the operational performance of Ohio's community schools while ensuring that the program is implemented in a manner consistent with legislative intent.

The operational review focuses on the following areas:

- Ohio Community School Law
- Monitoring and Oversight
- Community School Funding
- Community School Facilities
- Transportation of Community School Pupils

Planning for the Community School Program operational review began in September 2001, and the actual operational review was conducted primarily during the months of October and November 2001. Since the operational review examines the Community School Program rather than individual community schools, this final report focuses on the Community School Program as a whole and not individual community schools.

## **Key Findings/Recommendations**

### **Community School Law**

***Oversight for the Community School Program has not been statutorily defined and is not carried out in a comprehensive manner.*** ODE only monitors state-sponsored schools and is not involved in monitoring non-state-sponsored schools. Although the sponsor is usually responsible for monitoring schools it authorizes, the level and quality of oversight and monitoring varies substantially between Ohio sponsors.

**As Ohio’s public education rule-making body, ODE should advocate legislation assigning oversight of sponsors to ODE. Sponsors, in turn, should be statutorily required to monitor the schools they sponsor. Sponsorship should be permitted by a variety of institutions including traditional school districts, educational service centers, universities, joint vocational districts, cities and municipalities, and other 501(c)(3) organizations.**

***Accountability is diminished by the fragmented and inconsistent oversight of the Program.*** The absence of a centralized oversight and reporting body in Ohio limits the ability of the Ohio General Assembly, parents and taxpayers to receive credible information on the efficiency, effectiveness, and ability to meet goals of Ohio community schools.

**To improve accountability and reporting, Ohio should consider adopting the U.S. Department of Education’s recommended state-wide assessment guidelines for community schools. To centralize reporting, ODE, in conjunction with LOEO, should publish an annual aggregate report on community schools that includes analyses of operating efficiency and academic effectiveness. ODE should develop and distribute annual reporting guidelines and provide technical assistance to all community schools on the development and implementation of an annual monitoring and reporting plan.**

***The Ohio Revised Code (ORC) does not include provisions for several aspects of charter termination or failure.*** The ORC does not include provisions for a probationary period or for the development and monitoring of corrective action plans in the event that a community school is in danger of charter termination. The ORC also does not address the distribution of assets of terminated or failed community schools.

**To more completely address potential school failure, ODE should support legislation to amend the ORC to include a probationary period for community schools that may be in violation of their charters, State laws or rules, but are willing and able to complete a corrective action plan to rectify the non-compliance. The ORC should also be amended to address the distribution of assets in instances where a community school has closed for academic, legal or financial reasons. Although some contracts discuss the distribution of assets, legislative language should**

be developed to guide asset distribution in the event of school failure. Furthermore, this language should be included in all community school contracts.

*ODE does not administer funding in a manner consistent with internal grant guidelines and does not consider community schools' funding flow requirements when making changes to the funding system.* Also, several community schools have not obtained Federal tax exempt status. Furthermore, many community school boards are not independent of persons involved in business relationships with the schools they govern.

**ODE should implement a funding methodology that is consistent with ORC and the funding flow requirements of community schools. ODE should support legislation requiring all community schools to obtain Federal tax exempt status. Also, ODE should advocate legislation requiring independent community school governing boards to consist of five to seven members. One way to encourage the independence of board members would be to extend current ethics laws to community school board members. Board members should be representative of the community and a majority of the board members should not be related to management companies or school management. Every effort should be made to ensure that board members have expertise that is beneficial to the community school. Community schools should be exempt from ad valorem taxes on leased property and equipment.**

*Ohio's charter term of five years is consistent with the national average but the ORC does not contain a provision for extending charter terms for high performing community schools.*

Based on best practices found in other Charter School Law states, ODE should support legislation to amend the ORC to permit extending the term of charters beyond five years after a community school has demonstrated financial stability, academic achievement and the ability to perform in accordance with its charter, State laws and regulations.

*ODE has not extended basic services and technical assistance to community schools in several areas of operations.* In several areas where ODE has the statutory responsibility to interact with community schools, oversight and client service have not been extended to community schools at a level comparable to traditional public schools. ODE has not used its internal resources to support the community school system in Ohio.

**To remedy deficiencies in its support system, OSO should increase its focus on training and technical assistance for all Ohio community schools. Stringent financial monitoring procedures should be implemented and ODE should use its experience in developing educational rules for traditional public schools to develop model procedures and heightened technical assistance for community schools.**

**Several areas of deficiency in ORC compliance indicated a limited understanding of statutory requirements for community school operators, particularly in the areas of record keeping and financial management.**

To ensure ORC compliance, OSO should provide intensive training to prospective board members and new community school administrators to acquaint them with their statutory duties. Community schools should implement audit committees to ensure all areas of non-compliance are addressed.

**Identified weaknesses in ORC exempt areas indicate a need for greater structure or training in exempt areas.**

ODE should support legislation revisiting some of the ORC exemptions surrounding the organizational structure and management of community schools, as well as some of the ORC exemptions for financial management and reporting. Also, ODE should advocate legislation updating Ohio teacher certification requirements for candidates who hold bachelors' degrees to include an on-the-job training or mentoring program to be used in conjunction with Masters' degree studies.

**Some first and second year community schools are not sufficiently familiar with State and Federal law to appropriately administer services to students with special needs.** Community schools that are not familiar with special education regulations can suffer serious consequences if IEPs are not appropriately maintained.

ODE should monitor the enrollment trends for students with disabilities in community schools as a component of semi-annual site visits to ensure that all State and Federal laws guaranteeing access to free public education are fulfilled. The Office of Exceptional Children should regularly survey community schools to determine if the schools are obtaining appropriate assessment services and instructors.

## **Monitoring and Oversight**

**ODE has not adequately planned for the development of the community schools program or developed standard policies and procedures for contracting, funding, monitoring or evaluating its community schools.** Also, ODE has provided little technical assistance or guidance to the State-sponsored community schools or to other community school sponsors in the State.

To improve accountability and oversight, ODE should reorganize OSO and should advocate the development of a statutory system of accountability for community schools and their sponsors. Sponsors should be required to execute a contract outlining the sponsor's responsibilities and assurances that all legal requirements will be met. Community schools

should report annually to their sponsors. Minimum standards for required academic and financial performance measures should be developed.

OSO only provides technical assistance to state-sponsored community schools even though it was established by law to provide technical support to all community schools, sponsors and developers and to provide services that facilitate the management of the community school program. Also, OSO conducts limited monitoring of state-sponsored schools. OSO consultants do not visit state-sponsored schools with sufficient frequency and do not regularly follow up on identified areas of weakness in community school operations. The majority of monitoring functions are currently carried out under the Office for School Finance.

**To improve monitoring under the recommended reorganization of the community schools program, OSO should be restructured and its consultants stationed in field offices throughout the state. OSO consultants should provide technical assistance to sponsors, developers and community schools regardless of sponsor. Also, sponsors should be located or have representatives within the same geographic area as the community schools they sponsor.**

The role of the sponsor in monitoring community schools is ambiguous and not statutorily defined. The ORC does not address monitoring or technical assistance tasks and ODE has not further clarified the roles of the sponsor in these areas. In some cases, sponsors retain a small percentage of a community school's Foundation funds in return for providing greater levels of service to the school.

**ODE should promote legislation to clearly define the roles and responsibilities of community school sponsors in the ORC. Sponsors should provide community schools with clearly defined performance expectations and increase their monitoring of community school operations and performance outcomes.**

The minimum standards for community school contracts are defined in the ORC, but ODE's process for approving contracts is complex and difficult to navigate. Ohio sponsors use varying methods for contract approval and most contract approval processes take in excess of twelve months. Many community school developers require assistance in developing the contract and defining the specific goals and performance measures for their schools. Sponsors often provide technical assistance and feedback throughout the contract process to assist schools in identifying the components of their programs.

**ODE should develop a model handbook for contract development and should require sponsors to provide a comprehensive handbook to community school developers based on the ODE model. Also, ODE and other sponsors should examine the timelines for contract approval and revise them to be more consistent with community schools' start-up requirements. Sponsors should revise the timeline to allow sufficient time for community school developers to locate**

**and secure facilities, hire teachers, implement curriculum and notify districts-of-residence of transportation needs.**

**OSO conducts pre-operations site visits, but the methodology should be more thorough.** Pre-operational site visits are used by sponsors to ensure that certain minimum standards are met prior to the community school beginning operations. The Lucas County Educational Service Center (LCESC) uses a rigorous and complete method to conduct pre-operational visits and ensure that its community schools are ready to receive students.

**Sponsors should ensure that community schools have met all legal and safety requirements and received the necessary permits and certificates prior to beginning operations. When community schools have received temporary permits or licenses, sponsors should require that permanent certificates be obtained within a specified period of time. Sponsors should develop formal procedures to follow-up with community schools to ensure that permanent certificates, licenses and permits are obtained.**

**OSO conducts semi-annual site visits of state-sponsored community schools, but does not systematically evaluate community schools' organizational, financial or academic performance and does not provide information about the results of the assessment.** Ongoing site visits or inspections are a common tool used by sponsors to conduct periodic reviews of charter school operations. LCESC's site visits focus on performance as well as contract compliance, contain evidence of follow-up on previous areas of concern, and are summarized in an annual site visitation report for each community school.

**Ohio sponsors should monitor community school organizational, financial and academic performance during site visits in addition to compliance with legal requirements and contract terms. Sponsors should monitor schools on a monthly basis for the first contract year and semiannually through the first contract period. Sponsors should develop written policies and procedures for conducting site visits and ensure that all areas requiring monitoring are addressed.**

**ODE has not completed a process and procedures for five-year contract renewals with its community schools even though only one year remains in the contract for several schools.** Community school representatives reported that ODE has not provided them with any information on how the schools would be evaluated for contract renewal and expressed concern that they might not receive renewals from OSBE.

**ODE should establish a formal system for evaluating community schools that integrates information obtained from site visits, annual reports, report cards and the Fourth Year Inspection Protocol. ODE should communicate the methodology and criteria that will be used in determining eligibility for contract renewal to state-sponsored community schools. ODE should develop standard guidelines for sponsors that include the framework for evaluating**

community schools for contract renewal and provide for flexibility in defining performance standards in line with the community school’s educational program. The methodology and criteria for contract renewal should be included in all contracts between sponsors and community schools.

*OSO only provides technical support and community school program management to State-sponsored community schools.* OSO was established to provide technical support to all community schools, sponsors and developers. Community school operators consistently indicated that local or regionalized assistance had the most beneficial impact on their operations.

As required by law, OSO should provide technical support and training to all community schools, sponsors, and potential developers regardless of the sponsoring entity. ODE should locate consultants in its regional offices to provide better services to its community school customers. OSO consultants should have regular contact with community schools to assess technical assistance needs and should provide face-to-face technical support to sponsors and community schools in addition to formal training and workshops.

*The duties of the community school governing authority are not defined and some governing authorities are not independent of school vendors and management company representatives.* The governing authority (board) serves as the legal authority of the school but the ORC contains limited language regarding the major duties of the boards or direction on board composition. Some sponsors conduct governing board training, but this is not a prevalent practice.

ODE should support legislation prohibiting governing board members from being involved in a business relationship with the school they govern. Ohio ethics laws should be extended to governing board members to eliminate potential conflicts of interest. Also, as a component of its technical assistance program, OSO should offer intensive, regionalized training to community school board members, regardless of the sponsoring entity.

*ODE and sponsors do not monitor management companies’ involvement in the Community School Program and management company school operators are not subject to the same level of oversight as public schools.* Although they are private entities, management companies receive public funds to provide a variety of services to charter schools. In Ohio, the role of management companies ranges from establishing schools through the implementation of not-for-profit boards to supplying teachers, administrators and curriculum. The various tasks of management companies depend on the needs of the contracting charter school. Compensation for services may comprise as much as 99 percent of community school revenues.

ODE should require sponsors whose schools use management companies to provide annual financial statements detailing the charges billed by the management company with a description of each service. Management company fees should not exceed the cost for services provided plus a reasonable profit. Management company representatives should be excluded

from governing boards and management companies should not be permitted to sponsor schools. However, this does not preclude private companies from forming a not-for-profit foundation to serve as a sponsor if they meet all other statutory and regulatory requirements. Community schools should only pay for services contracted and received and, when a management company is employed, the terms and conditions of their services should be explicitly outlined and agreed to by the community school and the school's sponsor.

## **Funding**

***ODE does not administer or monitor its State and Federal grants in a consistent manner.*** ODE administers one planning and start-up State grant and two planning and implementation Federal sub-grants which are made available to the majority of Ohio's community schools. However, grants are not issued on a schedule and the approval timeline is not defined. Furthermore, grant files show little evidence of follow-up or monitoring of expenditures. No audits of grant fund expenditures are conducted by ODE. In some cases, State program grant administration practices have excluded community schools from certain grants. The Ohio School Facilities Commission and School Net do not permit community schools to fully participate in their programs.

**ODE should ensure that planning and start-up funding reaches community schools in a timely manner that adequately supports the initial outlays required for school start-up. ODE should develop rules for grant oversight based on best practices and should conduct internal and on-site audits of State grant expenditures. All grant administration should be conducted through the Office of Grants Management. ODE should ensure that community schools are treated equitably in the grant application, award and administration process. Finally, ODE should recommend the establishment of a low or no interest revolving loan fund to aid schools in start-up operations.**

***Community schools do not apply for and receive all available Federal funding because of unfamiliarity with Federal programs and manpower shortages.*** Federal funds comprise about 7 percent of community school funds. ODE representatives stated that some of the criteria of the Federal programs were difficult to meet under Ohio community school law. Also, some aspects of the Federal formula aid and grant programs create problematic eligibility requirements for community schools.

**ODE should offer training, assistance and support to community school operators in obtaining Federal grants. Donation programs and private funding should also be emphasized in training and assistance programs.**

**Foundation funding is not paid to community schools in a timely manner. The reimbursement process for services rendered does not support community schools' cash flow requirements.** Misestimation in full-time equivalent (FTE) counts led to early overpayments to community schools. ODE restructured the payment process just before community schools began their third year of operations in Ohio. The monthly FTE system requires negotiation with traditional schools that negatively impacts cash flow to community schools.

**ODE should restructure the FTE payment process to eliminate negotiation between community schools and traditional public school districts. Payments should be received by community schools within 30 days of the end of the service month. Start-up enrollment should be funded at 90 percent based on prior overpayment levels. Adjustments to FTE reports should be made in the following month so that community schools do not accumulate large overpayment balances.**

**ODE has not determined a consistent method to measure instructional opportunity and does not conduct sufficiently frequent FTE audits.** Although ODE is adopting a standard policy for determining community school enrollment, the definition of instructional time per FTE is determined by the school/sponsor contract. ODE does not monitor FTE reports on a regular basis and does not correlate individual instructional plans (IEPs) to weighted special education amounts. Annual audits are currently two years behind schedule and have identified several instances of gross overpayment because of inappropriately maintained IEPs.

**ODE should update the FTE manual to describe methods for measuring instructional opportunity. OSO field consultants should conduct monthly FTE and IEP reviews in community schools during the first contract year. Traditional districts should be required to provide proof for any enrollment challenges to community schools' FTE reports.**

**Annual FTE audits have resulted in the identification of large overpayments to community schools, usually because of insufficient documentation to support special education weighted amounts.** Because OSO does not conduct monthly FTE audits of new schools, ODE has overpaid community schools by approximately \$5 million for FYs 1998-99 and 1999-00. Community schools are required to repay overpayments through direct withdrawals from Foundation payments.

**To reduce overpayments, ODE should conduct FTE and IEP audits on a monthly basis during a community school's first year of operations, and semi-annually thereafter. IEP audits should be conducted in October and November in established community schools to ensure appropriate documentation exists to support special education weighted amount payments.**

**Several community schools exhibited poor financial management controls. Some fiscal officers are not appropriately qualified to manage community schools' finances.** Several of the community schools in Ohio have suffered adverse financial outcomes as a result of poor financial controls and oversight.

**Community school sponsors should follow up on AOS financial audit and management letter recommendations as a component of semi-annual site visits. ODE should collect and examine sufficient financial data to determine which community schools are on firm financial footing. Community school operators should seek to hire financial officers with training in government finance to assist the school in implementing proper control procedures. ODE should implement a financial consultant program using reputable retired school treasurers.**

***Approximately 38 percent of second year community schools closed FY 1999-00 with an ending fund deficit.*** Among Ohio community schools that were started in fiscal years ending June 30, 1999 and 2000, there were wide variances in the amount of equity/deficit at the end of the fiscal year.

**To improve the financial management of community schools, ODE should identify specific financial performance measures and key indicators for community schools to help governing boards better monitor and respond to changes in the school's financial condition. ODE should identify community schools facing financial difficulty and should investigate and recommend areas where revenues can be increased or expenses can be trimmed. Also, community schools should be encouraged to develop budget reserves.**

## **Facilities**

***Although the legislature approved a guaranteed loan fund, the Ohio School Facilities Commission has not implemented the program and additional capital financing programs have not been developed.*** Charter School Law states have made various facilities financing mechanisms available to charter schools including grants, direct loans, loan guarantees, loan pools, tax-exempt bonds, and tax credits.

**The Ohio School Facilities Commission should immediately implement the guaranteed loan program. The potential for a separate facilities commission for community schools should be considered by the Legislature. Per pupil facilities funding should be extended to all community schools. Finally, property owners who lease to community schools should be exempt from property taxes to reduce the lease cost to community schools.**

***Finding existing space that is built for educational purposes remains difficult for community schools.*** Community schools often occupy non-traditional school facilities such as office space and church buildings. Although Ohio lawmakers recently approved a measure that requires traditional districts to give community schools the first opportunity to buy school buildings that they no longer want or need, traditional school districts are reticent to part with their buildings. Furthermore, many community school operators are unfamiliar with the facility selection process and are unable to easily determine the suitability of a facility without assistance.

ODE should provide community school applicants and developers with information regarding facility selection and financing options. ODE should work in conjunction with the Ohio Department of Administrative Services to annually publish a list of vacant and unused buildings that are owned by traditional school districts or the state that may be suitable for the operation of a community school. OSO should include instruction on selecting a suitable facility in its workshops and sponsors should oversee the facility selection process to ensure suitable facilities are obtained.

## **Transportation**

***Community schools continue to face several transportation challenges in coordinating with traditional districts.*** Often, they must alter their start and end times and dates of operation to meet the timetables and calendars of traditional school districts. Although recently proposed legislation would address the problems encountered by community schools by providing transportation funding, the legislation does not address the logistical problems encountered by traditional school districts in providing transportation services.

To help resolve some of the logistical issues identified, ODE should provide all traditional school districts and community schools with a memorandum clarifying current legislation on transporting community school students. ODE should encourage traditional school districts to adhere to the guidelines for transportation of community school pupils as outlined in the ORC. In consistent cases of non-compliance, ODE should consider withholding transportation funding to the traditional district and, if it is determined that a legislative change is required, ODE should seek additional legislative authority. Traditional school districts should also include community schools in negotiations to determine daily schedules and calendar availability. Finally, ODE should compute the cost of transportation and, when traditional districts fail to provide adequate transportation services, ODE should pay community schools directly for the cost of transporting students.

***Traditional districts do not receive adequate notification of community schools' transportation needs. Community schools do not fully use all available transportation options.*** Community schools use contracted and public transit to transport a large percentage of students but do not fully use payments in-lieu of transportation. Traditional school officials noted that they could increase and improve service to community schools if community schools notified the traditional district of their transportation needs in a more timely manner.

ODE should act as a mediator in resolving transportation disputes. Community schools should increase use of payments in-lieu of transportation and ODE should consider increasing the in-lieu rate to the actual cost of traditional district transportation. ODE should consider increasing transportation options for all schools and should ensure that traditional districts are notified of all start-up community schools by the January prior to the school's opening.

## **Objectives and Scope**

An operational review is defined as a performance review of all business operational activities. These reviews can be agency-wide, or directly related to the activities of one department/division. Operational reviews consider both efficient and effective use of resources and whether the entity is achieving its goals. An operational review can be used to identify a breakdown in communication between management and staff, mis-communication between departments, problems with customer relations, and a variety of other issues of significant concern. Even though an agency may have a current business plan in place, the daily activities of the agency might not be in compliance with the goals and objectives of the plan. An operational review can assist in identifying what is not working properly, and whether the objectives of the business plan need to be revised.

The Auditor of State's Office has designed this operational review to provide recommendations which will increase the stability and enhance the operational performance of Ohio's community schools while ensuring that the program is implemented in a manner consistent with legislative intent. Specific objectives of this operational review include the following:

### **Community School Law**

- Examine the level of autonomy provided to community schools through ORC and Ohio Administrative Code (OAC) provision exemptions.
- Evaluate ODE's legal responsibilities to state and non-state sponsored schools based on the ORC.
- Analyze the adequacy of current laws and exemptions for community schools.

### **Community School Monitoring and Oversight**

- Evaluate the community school contracting process.
- Assess the role of other states' departments of education in contracting with community schools and compare to the functions fulfilled by ODE.
- Examine ODE's methodology for monitoring state sponsored and non-state sponsored schools.
- Review the adequacy of technical assistance provided by ODE to community schools.
- Evaluate the organizational structure, roles and staffing of ODE's office of school options and its role within ODE.

### **Community School Funding**

- Assess the availability of start up and other special use funds.
- Analyze the adequacy and types of the per pupil funding adjusted for the cost of doing business.
- Evaluate ODE's internal procedures for distributing available funds to community schools.
- Assess ODE's funding methodology and audit procedures for FTE reimbursements to community schools.

**Community School Facilities**

- Evaluate the impact of facility-related financial obstacles on both community and public schools.
- Assess the impact of facilities-related non-financial obstacles experienced by Ohio community schools.

**Transportation of Community School Pupils**

- Evaluate the impact of transportation service level obstacles on both community and public schools
- Assess the impact of transportation logistical obstacles experienced by Ohio community and public schools.
- Review feasibility of options for Ohio community school pupil transportation.

**Methodology**

To complete the operational review, the auditors gathered and assessed a significant amount of data pertaining to ODE and community schools including financial and performance measurement records, and policies and procedures related to the Community School Program. AOS held three community school forums in Columbus, Cleveland and Cincinnati to garner feedback from community school operators and developers on issues related to the subject areas covered in this review.

The auditors also conducted interviews with various groups associated with community schools and ODE, as well as other states' departments of education, non-profit community school support organizations and federal oversight agencies. Furthermore, the auditors reviewed reports and recommendations from various private nonprofit, State and Federal entities responsible for charter school program implementation and monitoring. The methodology is further explained below.

**Studies, reports and other data sources**

In assessing the various operational areas, ODE was asked to provide any relevant previous studies or analyses. In addition to reviewing this information, the auditors spent a significant amount of time gathering and examining other pertinent documents or information. Examples of the studies, reports and other data sources which were studied include the following:

- ODE policy papers, grant records, training materials and contracts;
- LCESC Community School Handbook;
- Community School contracts and site-visit reports;
- OSF financial records and FTE guide for community schools;
- Transportation cost records for 21 urban school districts;

- State evaluation of charter school program reports from Colorado, New Jersey, Pennsylvania, and Michigan; and
- ORC statutes pertaining to community schools.

### **Interviews, Discussions and Surveys**

Numerous interviews and discussions were held with many levels and groups of individuals involved internally and externally with ODE and community schools. These interviews were invaluable in developing an overall understanding of the Ohio Community School Program. Examples of the organizations and individuals that were interviewed include the following:

- Community school personnel;
- Personnel from ODE Offices of School Options and School Finance personnel;
- ODE Area Coordinators and OSO field representatives;
- Ohio School Facilities Commission personnel;
- LOEO personnel;
- LCESC personnel;
- Cincinnati Public School Community Schools personnel;
- Cuyahoga County Educational Service Center;
- Lorain County Educational Service Center;
- Cleveland Municipal School District;
- Plain Local School District;
- Wilmington City School District;
- Dayton City School District ;
- Put-in-Bay Local School District;
- Ohio Community School Center;
- Peer state charter school program directors.

### **Comparisons**

Comparisons were developed from other Charter School Law states, charter school support organizations and best practice agencies, as well as State and Federal oversight agencies. The information was obtained primarily through information requests and interviews held with the appropriate personnel. These agencies included the following:

- Legislative Office of Education Oversight Reports;
- Auditor of State reports;
- Ohio Association of School Business Officials;
- Government Accounting Office;
- United States Department of Education Charter Friends National Network;
- California Department of Education, Charter School Office;

- Colorado Educational and Cultural Facilities Authority;
- Massachusetts Department of Education;
- Michigan Department of Education, Public School Academies;
- Minnesota Department of Public Instruction;
- New York State Charter School Resource Center;
- North Carolina Department of Instruction;
- Commonwealth of Pennsylvania, Department of Education;
- Texas Department of Education, Division of Charter Schools;
- Center for Education Reform;
- Central Michigan University Charter School Office;
- Charter Schools Development Corporation;
- Michigan Association of Public School Academies;
- Ohio Community School Center;
- Ohio Charter School Association;
- Thomas B. Fordham Foundation;
- USCS- [uscharterschools.org](http://uscharterschools.org); and
- State statutes and State level charter school resources from the 37 Charter School Law states.

## **Charter Schools in Ohio and the U.S.**

Charter schools were created to improve student achievement, enhance parental and student school choice options and help promote educational reform. In 1991, Minnesota enacted the first charter school legislation, closely followed by California in 1992. Since then, 36 other states have followed suit as well as Puerto Rico and Washington D.C. Ohio passed community school legislation in 1997 and began community school operation in 1998. Most recently, in 1999, Oregon and Oklahoma passed charter school bills. As of September 2001, approximately 519,000 students attended some 2,400 charter schools across the country. While this represents only a small portion of the 52.2 million school age children in the country, there is strong support for charter schools.

The term “charter” may come from a suggestion made in the 1970's that small groups of teachers be given contracts, or “charters”, by their local school boards to explore new approaches to teaching. Essentially, charter schools are public schools that are free from most state and federal requirements that regular schools are subject to. The premise behind charter schools is that in return for this freedom, the school is held accountable for student performance. The “charter” represents a performance contract which details the school’s mission, goals, program, and measurements of student performance. If student performance does not meet the established goals by the end of the contract term, the charter can be revoked by the entity granting it. Through the contract, charter schools are also accountable to parents who choose them and the public that funds them.

Charter schools are formed by teachers, parents and other community members who enter into a contract with a sponsor (authorizer). Nationally, charter schools tend to be small and range in size

from less than 10 to more than 1,000 students. The average enrollment during FY 2000-01 was 251 students. Charters generally are in effect for five years. Newly started charter schools operate in a variety of venues including leased retail and warehouse space, surplus school buildings, and buildings shared with other non-profit entities.

Charter schools, called “community schools” in Ohio, are different from traditional Ohio public schools in that they are not subject to many of the laws and restrictions which govern traditional schools. Ohio began community school operation in 1998 with 15 schools and, by the start of FY 2001-02, the number had grown to 92 operating schools with over 20,600 students.

The Ohio law allows for an unlimited number of community schools, either newly organized or converted from public schools, in certain eligible districts. The initial charter is good for up to five years and community schools must organize as non-profit organizations, though they can subcontract with for-profit entities. Sponsoring entities, those that authorize and support the community school, include any local school board or joint vocational board in the county in which the big-eight district resides, any school district in academic emergency, Lucas County Educational Service Center, the University of Toledo or the State Board of Education. A sample of recent legislation regarding community schools that was introduced in the Ohio House of Representatives and Senate is outlined in **Table 1-2**.

**Table 1-2: Historical and Recent Ohio Community School Legislation**

Year	Legislation
1997	<p><b>Am. Sub. H.B. 215</b> - Established "pilot" community school program in Lucas County and allowed any district in the State to convert a classroom, wing, or entire school into a community school. These schools are permanent as long as contracts are renewed.</p> <p><b>Am. Sub. S.B. 55</b>- Permitted start-up community schools in any of the "Big 8" districts.</p>
1998	<p><b>Am. Sub. H.B. 770</b>- Made minor changes re: special education, Disadvantaged Pupil Impact Aid (DPIA), and all day kindergarten funding for community school students.</p>
1999	<p><b>Am. Sub. H.B. 282</b>- Lucas County "pilot" program made permanent. Initiative expanded to allow start-up schools in any of the 21 largest urban districts in the State and any district determined to be in "academic emergency".</p>
2001	<p><b>Proposed S.B. 61</b>- Introduced February 2001. Would require Department of Education to pay, in SFY01 and SFY02, "community school transitional aid" to any school district in which community school enrollment growth is 1% or more of the districts formula Average Daily Membership (ADM).</p> <p><b>Proposed S.B. 82</b>- Introduced March 2001. Would require the Department of Education to adjust the formula ADM of a school district whenever a community school student is found to have been excluded from the district's October formula ADM, and then recalculate the district's state funding based on that adjustment .</p> <p><b>Proposed H.B. 94</b>- Introduced February 2001, effective June 2001. Would add vocational education weights to the formula for funding community schools, provide for payment to any community school that accepts responsibility for transporting the school's students in SFY02, permit a sponsor to immediately suspend the operation of a community school for health and safety violations and other reasons, and reduce the time frame in which a sponsor may terminate or not renew a community school contract from 180 to 90 days.</p> <p><b>Proposed H.B. 364</b>- Introduced September 2001. Would create the Board of Community Schools as a new public entity that can sponsor community schools, permit all 13 state-assisted universities to sponsor community schools anywhere in Ohio, add "academic watch" districts to the list of areas where start-up community schools may be established, permit a community school to be established as a for-profit entity provided the governing authority posts a specified bond, permit single-gender community schools, permit certain unlicensed persons to teach in community schools after completing a one-year mentoring program, and require school districts to permit community school students to participate in certain district extracurricular activities.</p>

**Source:** Ohio House and Senate Bills

Charter school legislation is framed by the political process and usually reflects the overall political climate in the state, including current educational policies. Previous research has suggested that states can encourage or discourage charter school development through their legislative approach. As states evaluate their charter school laws over time, the overall trend is to expand the number of authorizing entities and eliminate or loosen restrictions on the numbers of charter schools permitted. Since 1997, at least ten states have increased or lifted their caps on charter school formation or have removed sunset provisions on charter school legislation. Policy analysts suggest that these changes

mark a shift from an experimental phase to viewing charter schools as an accepted part of the educational landscape. Although Ohio joined the ranks of Charter School Law states in a later period, only limited state level research has been conducted into other states' best practices in charter school law.

As of FY 2000-01, 37 states had implemented charter school laws. Arizona and Texas are the most active states in the implementation of charter schools. In each state, the development and implementation of statutes governing the development and implementation of charter schools frames and affects the success or failure of the schools and the legislative constraints within which they must function. The Center for Education Reform (CER) recently rated each Charter School Law state as a component of a Federal Department of Education study. The states' laws were scored by panel of charter school experts and graded on a set of criteria that demonstrate that state's desire to support or restrict the development a significant number of autonomous charter schools. The issues considered included: limits on the number of schools allowed, fiscal autonomy, guaranteed full per-pupil funding, and exemption from collective bargaining agreements or district work rules. The laws were evaluated on their effectiveness in creating an environment that fosters the growth of charter schools, with higher marks going to the states that were most "charter school friendly". **Table 1-3** shows the Charter School Law states as of FY 2000-01 and includes the year legislation was passed, the number of schools operating, enrollment levels and the grade assigned based on the CER study.

**Table 1-3: Charter School Law States (FY 2000-01)**

State	Year Legislation Passed	Schools Operating Fall 2001	Enrollment	Grade	Average State Funding	Independent or Dependent <sup>1</sup>	Funding Less (L), Comparable (C) or More (M) than Traditional District
Alaska	1995	16	1,271	C	\$6,000 -	D	C
Arizona	1955	416	94,759	A	\$4,000 -	N/A	C
Arkansas	1995	4	748	D	N/A	I	N/A
California	1992	302	121,598	A	\$4,000 - \$5,999	I	C
Colorado	1993	79	19,128	B	\$4,000 - \$5,999	D	L/C/M
Connecticut	1996	16	2,138	C	\$6,000 - \$7,999	I	L/C/M
Delaware	1995	7	2,686	A	\$4,000 -	I	C
District of Columbia	1996	33	9,254	A	\$4,000 - \$5,999	I	C
Florida	1996	149	27,713	A	\$4,000 - \$5,999	I	C
Georgia	1993	38	21,855	C	N/A	D	N/A
Hawaii	1994	6	2,370	D	< \$4,000	N/A	N/A
Idaho	1998	11	1,028	C	N/A	I	N/A
Illinois	1996	22	5,107	C	\$6,000 - \$7,999	I	L/C/M
Indiana	2001	0	N/A	N/A	\$4,000 - \$5,999	I	N/A
Kansas	1994	13	1,788	D	< \$4,000	D	N/A
Louisiana	1995	21	3,905	C	\$4,000 - \$5,999	I	N/A
Massachusetts	1993	41	11,565	A	\$6,000 -	I	C
Michigan	1993	185	53,102	A	\$4,000 - \$5,999	I	L/C
Minnesota	1991	68	9,411	A	\$6,000 -	I	L/C/M
Mississippi	1997	1	334	N/A	N/A	N/A	N/A
Missouri	1998	21	5,782	B	\$4,000 -	I	N/A
Nevada	1997	7	1,214	C	N/A	I	N/A
New Hampshire	1995	0	N/A	C	N/A	I	N/A
New Jersey	1996	54	13,518	B	\$6,000 -	I	L/C

New Mexico	1993	11	1,506	D	\$4,000 -	D	N/A
New York	1996	23	7,057	B	\$6,000 -	I	N/A
North Carolina	1996	94	18,516	B	< \$4,000	I	C
<b>Ohio</b>	<b>1997</b>	<b>68</b>	<b>18,081</b>	<b>C</b>	<b>\$4,000 - \$5,999</b>	<b>I</b>	<b>N/A</b>
Oklahoma	1997	6	1,450	B	N/A	N/A	N/A
Oregon	1999	12	752	B	N/A	N/A	N/A
Pennsylvania	1997	65	17,667	B	\$4,000 - \$5,999	I	C
Rhode Island	1995	3	533	D	\$6,000 -	I/D	C
South Carolina	1996	9	700	B	\$4,000 -	I	C
Texas	1995	165	38,107	A	\$4,000 -	I	C
Utah	1998	8	315	C	N/A	N/A	N/A
Virginia	1998	2	30	D	N/A	I	N/A
Wisconsin	1993	87	7,210	B	N/A	I/D	N/A
Wyoming	1995	0	N/A	D	N/A	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>2,125</b>	<b>522,198</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Average</b>	<b>1994</b>	<b>54</b>	<b>13,742</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

**Source:** Center for Education Reform, Charter School Highlights and Statistics 2000

**Note:** Nine states received an "A" grade, ten states received a "B" grade, ten states received a "C" grade, seven states received a "D" grade and one state received an "F". Thirty seven states were graded in total.

<sup>1</sup> Independent charter schools are non-profit entities. Dependent schools are those classified as a school within a sponsoring district.

Although the entrepreneurial model of charter schools anticipates school failure, the closure rate for charter schools remains a concern in Ohio and other states. Closures effect academic performance of pupils as they are transferred between schools. Also, the investment of public funds and subsequent failure of a charter school raises taxpayer concerns about the manner in which public funds are used. Nationally, charter school closures are approximately 4.0 percent as shown in **Table 1-4**.

**Table 1-4: National Charter School Closure Statistics (as of FY 2000-01)**

State	Number of Schools	Number of Closed Schools	Percent of Total
<b>United States</b>	<b>2,150</b>	<b>6</b>	<b>4.0%</b>
Alaska	18	1	5.6%
Arizona	451	1	0.7%
California	282	6	0.1%
Colorado	82	2	2.4%
Connecticut	17	1	5.9%
Delaware	8	1	12.5%
D.C.	40	2	5.0%
Florida	160	7	4.4%
Illinois	24	1	4.2%
Massachusetts	43	2	4.7%
Michigan	191	6	3.1%
Minnesota	74	6	8.1%
Nevada	8	1	12.5%
New Jersey	57	2	3.5%
North Carolina	98	8	8.2%
<b>Ohio</b>	<b>92</b>	<b>8</b>	<b>8.7%</b>
Oklahoma	7	1	14.3%
Pennsylvania	66	1	1.5%
South Carolina	11	3	27.3%
Texas	169	10	5.9%
Wisconsin	91	2	2.2%

**Source:** Center for Education Reform, Charter School Highlights and Statistics

**Note:** No charter schools have been revoked or voluntarily closed in Arkansas, Georgia, Hawaii, Idaho, Kansas, Louisiana, Mississippi, Missouri, New Mexico, New York, Oregon, Rhode Island, Utah, and Virginia.

The causes of school failure and closure are generally categorized as financial, management, academic, or facility related. Other causes comprise only 1 percent of all closures. **Table 1-5** shows the number of closures and causes as of FY 2000-01 for all U.S. charter schools.

**Table 1-5: Charter School Closure Causes**

Cause	Total	Percent of Total
Financial	31	36%
Mismanagement	32	37%
Academic	8	9%
Facility	14	17%
Other	1	1%

**Source:** Center for Education Reform, Charter School Highlights and Statistics

School failure is defined as a school that fails to fulfill the obligations outlined in its charter. Financial failure includes budgetary problems resulting from lack of enrollment, not enough money, or costs exceeding projected revenues. Management failure includes deliberate actions on the part of organizers or sponsors that led to the closure, such as mispending, failure to provide adequate programs, materials, etc., and a general lack of accountability. Academic failure applies to schools whose sponsors found them unable to meet the academic goals of their charter or, as stipulated in some cases, which failed to carry out an acceptable academic plan. Finally, facilities related failures apply to schools that got started but because they were unable to contract for a viable facility, were closed or voluntarily gave up their charter. A U. S. Department of Education study found that fiscal mismanagement and leadership issues dominated reasons for closure, although some states have implemented probationary status to help charter schools resolve problems before revocation is necessary.

In general, case studies have found that charter schools typically pass through a period of turbulence in their development. In the course of about three years, most charter schools regularize internal and external relationships and improve accountability. However, a U.S. Department of Education study of a number of charter schools in various states identified seven reoccurring “problem” factors identified by charter school operators; some or all of these problems impact all new charter schools.

- The start-up factor: inadequate financing, lack of planning, community opposition.
- The teacher factor: hiring and turnover.
- The parent factor: lack of support and problems with communication and expectations.
- The internal operations factor: internal communications and conflict.
- The regulations factor: accountability, Federal and state requirements.
- The district factor: district resistance to the charter school.
- The union factor: union resistance.

Further studies have revealed that charter schools that overcome these problems and the initial periods of turbulence generally develop into organizations very unlike traditional public schools. Established and experienced charter schools tend to be simpler, less conflict-ridden and more focused on student instruction.

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# Community School Law

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## **Background**

Ohio implemented community school legislation in 1997 through HB 215, which established a pilot sponsorship program in Lucas County through the Lucas County Educational Service Center, and a State level sponsor through the Ohio Department of Education (ODE). The original legislation authorized community schools for a period of five years, the continuation of which would be contingent on studies performed by the Legislative Office of Educational Oversight (LOEO). SB 55 amended the original legislation to include formation of community schools in "Big 8" districts (Cleveland, Columbus, Cincinnati, Toledo, Akron, Canton, Youngstown and Dayton). Additional modifications to the community school law were enacted in HB 770 (1998) and HB 282 (1999) which served to change special education and Disadvantaged Pupil Impact Aid (DPIA) funding, made the Lucas County pilot permanent, and granted community school sponsorship privileges to districts in academic emergency.

During FY 2001-02, several additional changes were proposed. Legislative efforts in early 2001 were targeted at traditional districts that may have been impacted by community schools. SB 61 proposed developing support funding to traditional districts that have large community school growth rates, while SB 82 proposed recalculating Average Daily Membership (ADM) for districts where community school students were left out of October ADM counts. HB 94, enacted in June 2001, added vocational education weights for community schools and increased the powers allocated to sponsors. The most sweeping reforms, contained in the proposed HB 364, were introduced in September of 2001 and would affect Ohio State Board of Education (OSBE) responsibilities as well as the allocation of responsibilities between community schools and traditional public school districts.

Several national studies have found that states with similar charter school laws tend to encounter the same types of problems in charter school implementation and oversight, indicating that the statutory framework for charter schools may have a strong impact on their viability. Also, state laws seem to influence public perceptions and set a tone for how charters will be received. Issues involving competition and collaboration have their roots in charter school legislation and the manner in which it is crafted.

Media reports of community school problems have heightened the awareness among Ohioans about public education and community schools' impact on traditional public school districts. Legislation, both for and against community schools, has been developed and proposed to remedy community school and traditional public school district problems under the current law. Several broad areas of concern have been defined and are under examination for inclusion in statutory or rule changes. These areas are examined in this section and include monitoring and oversight, sponsorship, OSBE and ODE powers and duties, funding and Ohio Revised Code (ORC) requirements and exemptions for community schools.

## **Findings and Recommendations**

### **A. Monitoring and Oversight**

The ORC provides minimal statutory guidance, leaving the ORC open to broad interpretations on the development, operation and oversight of community schools. The primary concern surrounding community schools is balancing monitoring and oversight with autonomy and innovation. A few highly-visible community school failures have underscored the need for adequate monitoring and oversight. The ORC is mute on issues of monitoring and oversight, and the ORC attributes reporting functions to only three specific parties.

- The LOEO is required to produce annual reports on Ohio community schools.
- The Ohio Department of Education, Office of School Options (OSO) is required to produce annual reports on student achievement.
- The Auditor of State (AOS) conducts annual financial audits and reports on community schools' financial and legal compliance.

Implied in the law is a responsibility of the sponsor to monitor and oversee the day-to-day operations of the community school. A sponsor may be the board of education in a "Big 8" district or in the county of a "Big 8" district, a district in academic emergency, the Lucas County Educational Service Center, the University of Toledo or the State Board of Education. However, ORC § 3314 does not specifically define the role of sponsoring organizations or their oversight responsibilities. **Table 2-1** shows the applicable code sections for community school sponsors.

**Table 2-1: ORC § 3314: Sponsors**

<b>ORC</b>	<b>Statute Text</b>
<b>3314.03</b>	- The sponsor will evaluate the school by performance standards established in the contract - The school governing authority will submit an annual report of its activities and progress in meeting the goals and standards and its financial status to the sponsor - The community school shall also submit to the sponsor a comprehensive plan for the school
<b>3314.05</b>	- The contract between the community school and the sponsor shall specify the facilities to be used for the community school and the method of acquisition
<b>3314.07</b>	- A sponsor may choose not to renew a contract at its expiration or may choose to terminate a contract prior to its expiration

Source: Ohio Revised Code §3314

Absent in the code is an explicit description of the monitoring and reporting tasks which might be used to maintain a high level of educational achievement and/or financial stability. While recent school failures and other community school related incidents have driven the call for greater oversight, specific interventions have not been proposed. Further, the role of statewide monitor has been attributed to ODE even though the Department's role is statutorily limited to "...provid[ing] advice and services to the community school program." ODE has chosen to remain a sponsor and

monitor of only the schools it has directly sponsored (state-sponsored schools) and has not conducted oversight of schools sponsored by other entities.

In the 38 states with charter school laws (Charter School Law states), identifying an appropriate body to coordinate monitoring and oversight of charter schools has been a challenge with many variations of shared state and local responsibility currently in use. Based on interviews and data gathered from community schools and sponsors concerning sponsor oversight, local or regional oversight appears to be the most effective. Several states use local school boards as sponsors and require local school boards to monitor community schools. This arrangement is the most popular, comprising 26.3 percent of sponsoring arrangements, although the relationships between the local boards and community schools have varied widely in success. In other instances, the state board of education is responsible for the sponsorship and monitoring of community schools (21.1 percent of arrangements). An additional 26.1 percent of states with charter school laws allow several sponsors from diverse backgrounds to sponsor and monitor charter schools (**other** category). **Table 2-2** shows a breakdown of chartering authorities.

**Table 2-2: Chartering Authorities**

Chartering Authority	States	#	%
<b>Local School Board</b>	FL, GA, ID, NM, NV, OR, PA, SC, VA, WY	10	<b>26.3%</b>
<b>Local School Board or Joint-vocational School</b>	OK	1	2.6%
<b>Local School Board <u>then</u> State Board of Education</b>	AK, KS, NH	3	7.9%
<b>Local School Board <u>or</u> State Board of Education</b>	DE, NJ, RI, TX	4	10.5%
<b>Local School Board <u>and</u> State Board of Education</b>	IL, LA	2	5.3%
<b>State Board of Education</b>	AR, CA, CO, CT, HI, MA, MS, UT	8	<b>21.1%</b>
<b>State Level Charter School Board or Commission</b>	AZ	1	2.6%
<b>Other:</b> Public School Board and Public Charter School Board	DC	1	2.6%
<b>Other:</b> A Governing Body, an Executive of Consolidated City or a 4-year University	IN	1	2.6%
<b>Other:</b> Local School District Board, Community College or 4-year Public University	MI, MO	2	5.3%
<b>Other:</b> Local School District Board, Community College or 4-year Public University, Charitable Foundation	MN	1	2.6%
<b>Other:</b> Local School District Board, University of North Carolina, State Board of Education	NC	1	2.6%
<b>Other:</b> Local School District Board, State Universities, Board of Regents	NY	1	2.6%
<b>Other:</b> Local School District Board or Joint-vocational Board in a Big-eight County or Fiscal Emergency District, State Board of Education	<b>OH</b>	1	2.6%
<b>Other:</b> Local School District Board, City of Milwaukee, University of Wisconsin-Milwaukee, and Milwaukee area Technical College	WI	1	2.6%
<b>Total</b>	<b>N/A</b>	<b>38</b>	<b>100.0%</b>

**Source:** Charter School Law States' Statutes

In most cases, the role of the sponsor is loosely defined in the states' laws. Only state laws in Delaware, Michigan and New York explicitly mention the role of the authorizing authority (sponsor) for the purposes of monitoring and oversight. In general, the statutes direct the sponsor to ensure adherence to all applicable laws, regulations and contract provisions. Michigan's law permits the State Board of Education to revoke a sponsor's authorizing authority if the sponsor does not engage in appropriate monitoring and oversight activities.

Ohio has not designated a single entity as responsible for monitoring the operations of community schools or sponsors. Sponsoring powers are granted by the Ohio General Assembly through the ORC and a mechanism to revoke authorizing powers, outside of ORC amendments, does not exist. A decentralized environment exists in Ohio where sponsors from several diverse areas monitor community schools based on the limited guidelines in the ORC and the sponsor/school contracts. Some sponsors exhibit greater levels of monitoring and intervention, as is the case with Lucas

County Educational Service Center (LCESC), Cincinnati Public Schools (CPS) and OSO's Trumbull County Educational Service Center representatives. In contrast, schools sponsored by the State Board of Education receive limited oversight and assistance (see also **community school monitoring and oversight** section).

ODE is in the process of drafting a management plan for community schools to enhance the administration of the Community School Program. During the last quarter of 2001, ODE worked closely with Auditor of State (AOS) to address identified flaws in the current system and produce a comprehensive plan to improve its role in the Community School Program. When complete, the ODE plan will serve as a blueprint for improving the Community School Program in Ohio. Through the joint development of the plan, ODE has ensured that the management plan is consistent with recommendations in this operational review.

The ODE plan is based on the Ohio State Board of Education (OSBE) acting as an authorizer of sponsors, and includes a final board approval for all contracts between sponsors and community schools as recommended below. An arrangement of this type centralizes oversight and limits the potential for conflict of interest between ODE and certain sponsors who support more innovative educational models. The ODE plan also reorients department focus on technical service and sponsor oversight. An oversight model, such as the model proposed below, limits the number of entities ODE must monitor and allows ODE to concentrate on technical assistance, program oversight and rule development. The draft also includes a provision for legislative definition of sponsor criteria. Developing minimum criteria for sponsors and community schools as a component of new legislation will help limit the potential for exclusion of schools and sponsors for reasons beyond good business practice.

#### **Recommendations 1-4:**

- 1. As the governmental body responsible for public education in Ohio, ODE should take a leadership role in promoting the community school program in Ohio. Several bills have been or will be introduced in the upcoming session of the Ohio General Assembly. The OSBE and ODE should take a leadership role in promoting change to enhance educational innovation in Ohio and strengthen the Community School Program. ODE should advocate legislation to amend the ORC to make ODE responsible for the oversight of the community school program in Ohio. As the state-level body for educational policy and rule making, ODE has the broad knowledge base and reporting channels to effectively manage the community schools program in a oversight capacity.**

**The powers granted to ODE should be amended to rescind its direct chartering authority, but grant the power to authorize sponsors. ODE should also oversee the monitoring efforts of sponsors and penalize sponsors who do not fulfill the requirements associated with sponsorship. As ODE has shown limited ability to monitor schools on a day-to-day basis, providing a broader oversight and reporting role would best suit the Department's current capacity. ODE should also serve as a third signator on all contracts between sponsors and**

**community schools to ensure adherence to ODE funding rules and retain ODE involvement in the school funding process.**

**ODE should centralize technical assistance and monitoring functions in OSO. All persons serving community schools should be pooled in OSO. OSO should be reorganized as an independent department reporting directly to the superintendent of public instruction or an immediate subordinate. The responsibilities of OSO should be expanded to include managing and administering the Community School Program, advocating legislative change for the program, and serving as a facilitator for the development of community schools in Ohio. Also, OSO should assign consultants to field offices to serve as liaisons between the central office and community schools. As discussed in the community schools monitoring and program oversight section, these changes could be implemented by ODE within current staffing levels but would require some reallocation from other departments.**

**If ODE is unable to reorganize OSO and make the department operational, the General Assembly should proceed with plans to administer the Community School Program through a separate commission. ODE should implement its management changes by the end of February 2002 to demonstrate its ability to take a leadership role in promoting and managing the Community School Program.**

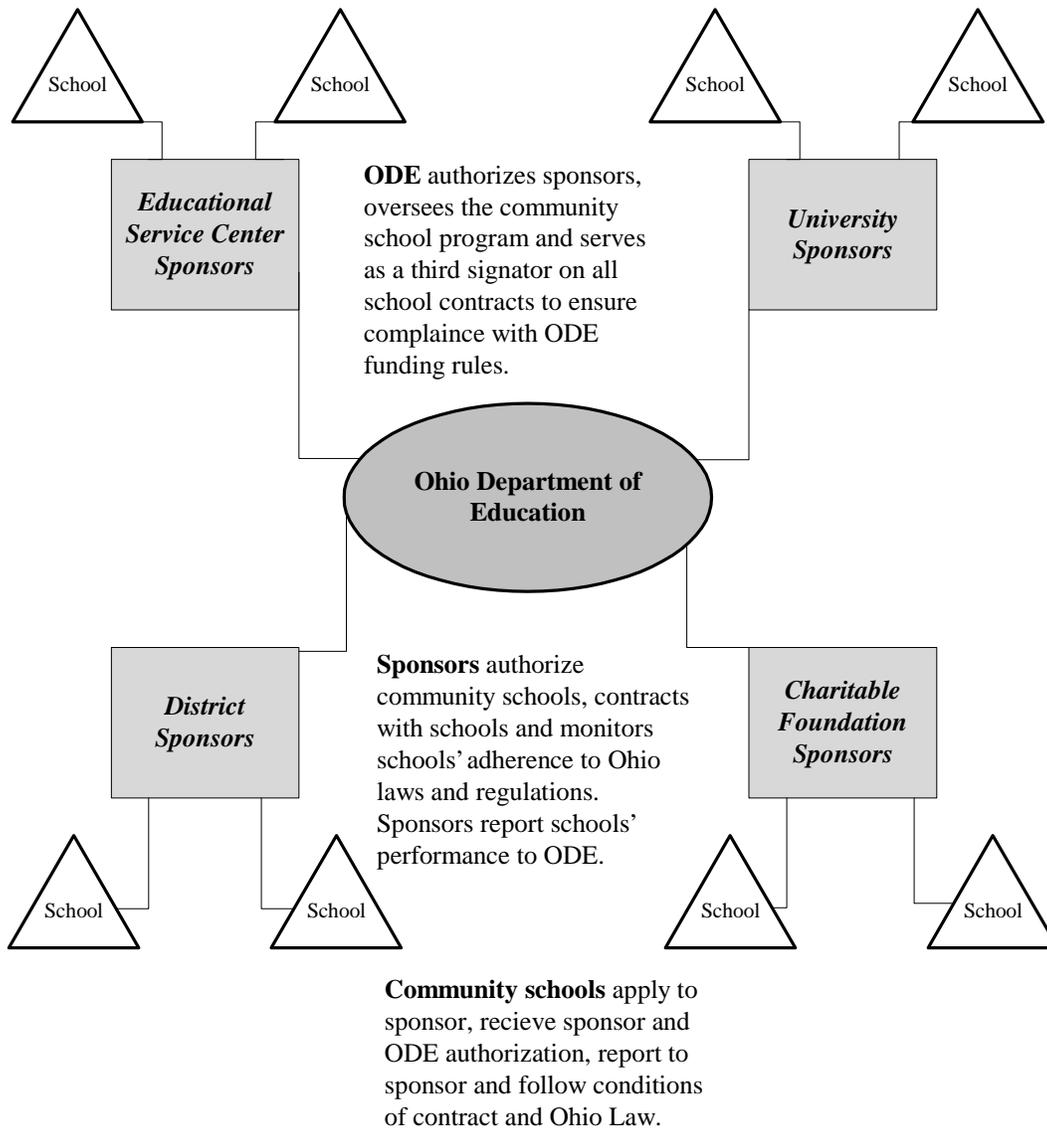
- 2. ODE should support legislation to amend the ORC to designate specific criteria for sponsorship. These criteria would be used by ODE to determine the appropriateness of sponsors. Sponsors, once approved by ODE, should be permitted to sponsor any type of school that they are willing to monitor in a manner compliant with any ORC amendments and all ODE rules.**

**ODE should also support legislation which would assign monitoring functions to the sponsor. Language similar to that used in Delaware, Michigan or New York could be used to describe the role of the sponsor in monitoring the schools it charters. Other states' statutes describe the role of the sponsor as "ensuring the community schools adhere to all applicable laws, regulations and conditions of the contract". Sponsors should be required to report on all schools they authorize on an annual basis in a format prescribed by ODE.**

- 3. ODE should advocate legislation to open sponsorship to a variety of institutions including traditional school districts, educational service centers (ESCs), universities, joint vocational districts, cities and municipalities, and private 501(c)(3) organizations. By expanding the pool of sponsors, the Ohio General Assembly would potentially allow for the development and support of a wider range of educational models. Also, a wider range of sponsors would reduce the likelihood of community school developers being denied sponsorship because of conflicts-of-interest. See also community school monitoring and program oversight for additional information on sponsor roles.**

**Chart 2-1 shows the potential arrangement of Ohio entities in the chartering process.**

**Chart 2-1: Proposed Community School Program Structure**



4. **ODE should support the development of a formal collaborative review function to ensure the functionality of new chartering and monitoring arrangements. Because of the newness of the community school program, an organization designated to review and report on community school success, failures and best practices would help guide the community school law revision process. This function could be designed in a manner similar to a city charter review commission-- required by statute and designated to meet on an annual basis.**

**This commission would evaluate the current status of the Community School Program, make recommendations to the Legislature and ODE for any modifications to the program, and serve as a clearinghouse for any stumbling blocks identified in the Community School Program. An independent organization of this type could consist of participants from a diverse range of entities including current community school operators, sponsors, traditional public school superintendents, members of the Ohio House and Senate, and representatives from the Legislative Budget Office, LOEO, ODE, and AOS. Members of the commission could meet during November and December to develop recommendations for future legislative changes and to refine current community school statutes. Collaborative meetings of this kind would help ensure that critical issues in the community school program do not linger unaddressed.**

## **B. Accountability and Reporting**

The ORC includes limited direction on the methods used to ensure accountability. Community school accountability is necessary on several levels. Community schools are accountable to their students and the parents of their students, to Ohio taxpayers who fund the program, and to the Ohio General Assembly. The Ohio General Assembly has established an annual monitoring program through the LOEO (ORC § 3314.12) which compiles data from community schools for comparative purposes. Community school students also must take the statewide proficiency test. Finally, the ORC requires all community schools to undergo annual financial audits. Under the arrangement proposed in **Recommendations 1-3**, community schools would also be monitored by their sponsors and, by extension, ODE to ensure increased accountability and oversight.

Several areas of accountability must be addressed for community schools to operate effectively and garner public support. Financial and organizational accountability are important to ensure that Ohio taxpayer resources are adequately safeguarded. Academic accountability is also important in ascertaining the success of community schools that were created to address specific educational models and pupil needs. Most critical assessments of charter schools focus on the schools' inability to demonstrate increased student performance through state-wide student achievement tests. Of the states with charter school laws, most (44.7 percent) rely solely on statewide assessments. Community school officials in Ohio have contended that statewide assessments (the Ohio Proficiency Test) do not recognize the improvements made by poor performers, particularly children who came to the community school performing below grade level. A large number of Ohio's community schools serve children with special educational needs. Often, these students have histories of poor

performance, or have or planned to drop out of school. **Table 2-3** shows the types of accountability reports used by Charter School Law states.

**Table 2-3: Accountability and Reporting**

Method	States	#	%
None	WY	1	2.6%
Annual Report	OR	1	2.6%
Plan for Student Achievement	HI	1	2.6%
District Assessments	DC	1	2.6%
Statewide Assessment	AR, CT, ID, IL, KS, MN, MS, NV, NH, NJ, NM, NY, NC, OK, RI, TX, VA	17	<b>44.7%</b>
Statewide and District Assessments	AK, CO, SC	3	7.9%
Statewide Assessments Plus one or more of the following: -National Norm-referenced Assessments -State Board Evaluation -Outside Evaluation -Charter School Selected Assessments -Other	AZ, CA, DE, IN, MA, MI, MO, PA	8	<b>21.1%</b>
Statewide Assessment Plus Annual Report	FL, LA, <b>OH</b> ,	3	7.9%
Annual Report Plus Plan for Student Achievement	GA	1	2.6%
Statewide or National Norm-referenced Assessment Plus Plan for Student Achievement	UT, WI	2	5.3%
<b>Total</b>	<b>N/A</b>	<b>38</b>	<b>100.0%</b>

**Source:** Charter School Law States' Statutes

The results from the accountability measure used in Ohio, the Ohio proficiency tests, indicate a poor performance by community schools' in meeting student needs and sponsor/school contract objectives and goals. Community school operators stated that the proficiency tests do not adequately measure student achievement because many students enter community schools performing below grade level. The proficiency test does not measure their incremental gain in ability. To offset the reported limitations of the proficiency test, most community schools employ additional assessments. LOEO determined that Ohio community schools use several additional types of measures to gauge academic progress. These measures included the following:

- Diagnostic tests (17 percent of community schools);
- Teacher-constructed assessments (43 percent of community schools);
- Student portfolios (41 percent of community schools); and
- Norm-referenced tests (65 percent of community schools).

In Florida, the state-wide academic accountability system failed to include almost two-thirds of charter schools. The most prevalent reason for exclusion was the size of the school as small schools

where individual performance might be identified were excluded. Also, the Florida system is not designed to cover several of the special populations served by Florida charter schools. The Office of Program Policy Analysis and Government Accountability (OPPAGA) determined that the Florida system was insufficient to monitor charter school accountability and recommended further additions to accountability measures including more detailed goals and objectives in each contract.

OPPAGA also reported that the absence of measurable goals and objectives in the charter school contract hinders sponsors from determining if schools are succeeding. Florida charter schools often serve at-risk students who must make substantial academic progress to meet state academic standards. The limited number of precise measures in Florida charter school contracts invariably creates situations where the sponsor and school disagree on the interpretation of goal achievement and school success. In Florida, over 59 percent of charter schools received grades of D or F on the state-wide achievement tests. OPPAGA recommended that the state-wide system be changed to include assessment of both grade level ability and student progress.

In Arizona, all public schools measure student academic achievement through the Arizona Instrument to Measure Standards (AMIS). The test is administered at five grade levels and must be passed to receive a high school diploma. The Stanford 9 Achievement Test is also administered to students in grades 2 through 11. Arizona recently implemented the Arizona Measure of Academic Progress (MAP) which compares the Stanford 9 scores of students to measure performance gains or losses. This allows schools who have low AMIS scores to demonstrate progress and reveals that many high scoring schools maintain the status quo.

Michigan recently recognized the limitations in its student academic achievement assessment system. A recent study of Michigan charter schools recommended that the Michigan Department of Education implement a more sophisticated information system to collect student achievement data. The study also recommended the use of the Adequate Yearly Progress (AYP) assessment in all charter schools. The AYP process includes the following steps:

- An achievement gap is computed for each student;
- A target gain is calculated for each student;
- A student's actual gain is computed and compared to the target gain.

The Michigan study further recommended the development and implementation of an assessment system based on U.S. Department of Education recommendations for state student achievement systems. Recommendations include the following:

- Having test scores at the individual student level available for analysis;
- Being able to link individual student scores from different administrations of the test to track changes in individual student scores;
- Being able to control for mobility ;
- Having test scores for consecutive years;
- Having a system for scoring tests that provides an actual score for the individual student;

- Being able to include other demographic information about the student;
- Having a test that is aligned with curriculum standards;
- Having a test system protected from corrupt practices; and
- Having a testing system with instruments designed to assess individual student performance.

As of October 1999, only Tennessee's student assessment system met the Federal recommended criteria for state-wide assessment systems. The Federal recommendations indicate that future assessment systems should address additional research questions surrounding comparability of achievement between schools and the impact of specific demographic and socioeconomic data on student performance.

On a national level, charter school leaders generally object to standard outcome measures and comparison with other schools. Many prefer the school to be judged on its charter alone. Others prefer the measure of parent satisfaction. Even in cases where charter school operators support achievement testing, they are generally reticent to use state testing programs that measure academic achievement on a large number of subjects or measure the charter school's performance against the local district. However, national studies recommend that charter school operators do not resist state-wide assessments but ensure a clear understanding of parental and student expectations of the charter school.

Proficiency and educational tests measure only one component of accountability, academic achievement. The absence of a centralized oversight and reporting body in Ohio limits the Ohio General Assembly's, parents' and taxpayers' ability to receive credible information on the efficiency, effectiveness, and ability to meet goals of Ohio community schools. In the absence of a statewide oversight body, ODE's Office of School Finance (OSF) has adopted limited financial oversight measures through full time equivalent (FTE or daily attendance) audits. Although community school proponents advocate market forces through parent choice as the best method to measure accountability, market forces alone cannot provide Ohio taxpayers with assurance of the viability of their investments in community schools nor do market forces demonstrate community schools' ability to meet the goals of their individual charters.

Several Charter School Law states include the annual reporting requirements of the sponsor in the statute. In Ohio, ORC 3319.30.1 requires the governing authority of the charter school (school board) to submit an annual report of its activities and progress in meeting the goals and standards of the school and its financial status to its sponsor, the parents of all students enrolled in the school, and LOEO. However, the ORC does not include specific parameters to guide community schools on essential reporting elements. Likewise, ODE, as Ohio's educational rule-making body, has not clarified the reporting requirements for the annual reports and does not provide technical assistance to non-state sponsored schools on the development of annual reports.

In states where the sponsor is responsible for monitoring charter schools, the oversight of sponsors is delegated to the State Board of Education or another State-level committee. Accountability is then monitored at the state level through a variety of annual reporting methods. Several other states have

included these annual reporting requirements in their statutes. **Table 2-4** shows the various areas covered in other states' annual reports.

**Table 2-4: Annual Report Elements**

Assessment Area	States
Student scores on assessment instruments and student attendance	AZ, IN, TX
Student grades, incidents involving student discipline, socioeconomic data on students' families, parent satisfaction with the schools; student satisfaction with the schools, the cost of instruction, administration, and transportation incurred by the schools and the effect of the schools on the local school districts, on the teachers, students, and parents in those districts	AZ, TX
The charter school's progress toward achieving the goals outlined in its charter, financial records of the charter school, including revenues and expenditures, and salary and benefit levels of charter school employees	FL
A description of the educational methods and teaching methods employed, graduation statistics, student enrollment data, the number of students expelled, and the number of students who discontinued attendance at the charter school and the reasons for the discontinuation.	IN

**Source:** Indiana, Texas, Florida and Indiana State Statutes

Based on the elements listed in these states' statutes, Arizona, Texas, Indiana and Florida appear to have more comprehensive reporting policies for annual accountability reports that could be applied to community schools in Ohio. The wide range of elements included highlight several areas of current concern in Ohio, including community schools' ability to meet charter goals, financial management, costs of instruction and administration, and the effects of charter schools on local districts (number of students lost, funding reduced, any teacher reductions or building closures). Because of the wide range of subjects included, several of these reports are produced at the state level and show an aggregate assessment of community schools. Still, reports including detailed analyses of each school's performance are usually compiled at the school or sponsor level.

A U.S. Department of Education study identified five prominent areas of charter school performance that were monitored by sponsors. Sponsors monitored charter school academic achievement in 100 percent of schools. Student attendance and graduation were monitored in 85 percent and 83 percent of charter schools. Parent involvement and student behavior were less emphasized and were monitored in only 81 percent and 76 percent of charter schools respectively. Almost all states indicated that sponsors were responsible for overseeing the terms of the charter and monitoring the charter school's performance. Only six states specified that sponsors were not responsible for monitoring or provided limitations on monitoring requirements.

**Recommendations 5-7:**

- 5. The U.S. Department of Education, through collaboration with education policy makers, representatives of state departments of education, and education scholars, has developed recommendations for state-wide assessment systems. ODE should advocate legislation authorizing the adoption of the U.S. Department of Education's recommended state-wide assessment guidelines for community schools. Because community schools serve populations that may differ from those served by traditional public districts, a more comprehensive assessment system will better reflect the achievement of community school students.**

ODE should also develop a state-wide system to maintain such data. Expanded achievement reporting would allow all schools to track both student grade level attainment but also incremental performance gains. Sponsors should also consider adding an array of monitoring clauses to each contract to ensure that sufficient data is generated to adequately depict the progress of the community school in educating its students.

- 6. ODE, in conjunction with LOEO, should publish an annual aggregate report containing analyses of operating efficiency, financial stability and academic effectiveness based on annual reports provided by community schools and their sponsors. The annual report should be produced, published and made available to the public within 120 days of the end of the fiscal year. To ensure accountability, the aggregate report should be made available on-line and should be mailed to constituents upon request.**
- 7. As Ohio's State-level education policy and rule-maker, ODE should establish annual reporting guidelines and provide technical assistance to all community schools and their sponsors on the development and implementation of an annual monitoring and reporting plan. The annual reporting elements should be drawn from model states such as Arizona, Texas, Indiana and Florida. Once developed and approved, the criteria should only be changed based on carefully deliberated analyses. ODE should implement annual reporting guidelines and train community school operators in the development of annual reports by June 30, 2002.**

**C. Non-renewal and Termination of Community Schools**

The ORC states that a sponsor can terminate a charter school's contract for specified reasons or good cause. This arrangement exists in 50 percent of Charter School Law states' statutes. Generally, the reasons for termination include violations of the charter or state statutes, or failure to meet standards of fiscal management. **Table 2-5** shows the national distribution of parties who may terminate contracts in each state and the criteria used in termination.

**Table 2-5: Reasons for Revocation of Charter**

Method	State	%
<b>Termination by Sponsor</b>		<b>50.0%</b>
1. The charter school breaches one or more provisions of its charter.	AZ	3.8%
1. Material violation of charter <sup>1</sup> 2. Failure to meet standards of fiscal management <sup>2</sup> 3. Violations of the law	CA, ID <sup>3</sup> , IN, MI, MO, SC, PA, WY	30.8%
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of law 4. Other good cause shown	FL, MN, OH	11.5%
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of law 4. Insolvency or financial impairment 5. Health and safety violations or to protect property	NV	3.8%
<b>Termination by Local Board of Education</b>		<b>23.1%</b>
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Other good cause	AK	3.8%
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of the law	CO, IL, KS, NM, VA	19.2%
<b>Termination by State Board of Education or Other Party (Local Board or Sponsor)</b>		<b>7.7%</b>
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of the law 5. Two-thirds of the school personnel request charter termination 6. Other good cause	NC	3.8%
1. Student assessment measures fall below the level that would allow the commissioner to revoke the registration of another public school, and student achievement on such measures has not shown improvement over the preceding three school years 2. Violations of the law	NY	3.8%
<b>Termination by State Board or State Education Commissioner</b>		<b>19.2%</b>
1. Good cause	CT <sup>4</sup>	3.8%
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of the law	AR <sup>4</sup> , GA	7.7%
1. Material violation of charter 2. Failure to meet standards of fiscal management 3. Violations of the law 4. A material misrepresentation in its application or contract application 5. Insolvency or financial impairment	NH	3.8%
1. Failure to meet the requirements for student performance stated in the charter 2. Failure to meet standards of fiscal management 3. Violation of the law 4. Other good cause	UT	3.8%

Source: Charter School Law States' Statutes

<sup>1</sup> Material violations of charter include failure to meet terms and conditions of charter, and failure to meet standards of student performance.

<sup>2</sup> Fiscal mismanagement includes failure to adhere to Generally Accepted Accounting Principles (GAAP).

<sup>3</sup> ID also provides for termination if the school does not provide required reports.

<sup>4</sup> CT and AR provide for probation periods to provide the school an opportunity to correct deficiencies prior to contract termination.

Termination by the sponsor is the predominant method of charter termination, represented in 50 percent of charter school laws. Of these states, termination by the local board sponsor occurs in 23.1 percent of cases. The state board or educational commission is involved in the termination process in 26.9 percent of charter school laws. In Ohio, the sponsoring authority is responsible for termination of the charter. While the bulk of termination procedures occur at the local level (sponsor or local board), the inclusion of the state board provides a heightened level of oversight. In these cases, the state board may preempt the sponsor and terminate the charter of a non-compliant school.

A U.S. Department of Education study identified three major reasons for charter termination or school closure. These reasons included, in order of importance, financial problems, management or leadership issues, and student performance. Other reasons mentioned included facility issues and lack of enrollment. In a minority of cases, the school simply failed to open because the developer was unable to implement the development plan. Revocation was more common in sponsors who authorized multiple charter schools while implementing a corrective action plan or using probationary status was more common with single-school sponsors.

The ORC and most charter school laws provide for charter termination in cases where the school does not meet the requirements of the charter or state statute. However, states such as Delaware, Connecticut and Arizona have included a provision for probationary measures to be used in schools under review for termination. The Delaware law stipulates that the authorizing authority may submit a charter to a formal review to determine whether the school is violating the terms of its charter. After the formal review, if the school is found to be in violation of its charter, the authority may revoke the charter and manage the school directly or place the school on probationary status, the terms of which are determined by the authorizing authority and relevant to the violation. Charters are revoked only when probationary actions are unlikely to succeed.

Texas law includes a provision for the Texas Department of Education to develop probationary rules for charter schools. In New Jersey, the Education Commissioner may place a charter school that is in violation of its charter on probationary status to allow the implementation of a remedial plan. If the plan is unsuccessful, the charter may be summarily revoked.

California statutes state that, “prior to revocation, the authority that granted the charter shall notify the charter public school of any violation of this section and give the school a reasonable opportunity to cure the violation, unless the authority determines... that the violation constitutes a severe and imminent threat to the health or safety of the pupils.”

The ORC does not include provisions for a probationary period or for the development and monitoring of corrective action plans for a community school in violation of its charter. The ORC also does not address the distribution of assets of terminated or failed community schools. However, ODE contracts with state-sponsored schools address asset distribution in the event of school failure. Several Charter School Law states address the distribution of assets and impact of charter school closings. These methods are shown in **Table 2-6**.

**Table 2-6: Asset Allocation and Liability After Termination**

State	Assets and Liability After Termination
Minnesota	<p>The board may sell, lease, transfer, or otherwise dispose of all or substantially all of the property and assets. Tangible and intangible property, including money, remaining after the discharge of liabilities may be distributed to the members and former members as provided in bylaws.</p> <p>As soon as possible, the board shall collect or make provision for the collection of all debts due or owing and pay or make provision for the payment of all liabilities.</p>
Florida	Unencumbered funds and all equipment and property purchases with district public funds shall revert to the ownership of the district school board.
North Carolina	All net assets of the charter school purchased with public funds shall be deemed the property of the local school administrative unit in which the charter school is located.
Nevada	The governing body of the charter school shall make an assignment of all real property and other property of the charter school to the State of Nevada for the repayment of all money received by the charter school from this state for the operation of the charter school during that year. Under voluntary bankruptcy neither the State of Nevada nor the sponsor of the charter school may be held liable for any claims resulting from the bankruptcy.

**Source:** Charter School Law States' Statutes.

In states where the local district serves as sponsor, the local district receives all assets upon closure of the charter school, as in the case of Florida. In Minnesota and North Carolina, local boards and other entities can act as sponsors. However, when a charter school closes, the assets revert to the district in which the school is located. In some charter schools this has created a concern that an incentive exists for the local district to sabotage the school in order to obtain its resources. Nevada, also a local board sponsoring state, requires all assets from closed schools to revert to the state. Only statutes from Minnesota and Nevada address the financial liabilities associated with potential school closure. Both require the repayment of debts from the remaining school assets. Nevada's statutes absolve the state and sponsor from financial liability resulting from voluntary bankruptcy. In cases where legislation does not designate the disposition of property, the assets belong to the non profit entity holding the charter. In these cases, funds awarded to nonprofit entities cease to be public funds and the nonprofit's governing board has the power to dispose of the school's assets in the event of school failure.

Ohio's use of the entrepreneurial model of community schools suggests that school failure will occur as a result of market forces like parent choice; failure will usually occur for financial reasons. Several methods for managing a failing school or the division of its assets and liabilities appear in other states' statutes (Florida, Minnesota, North Carolina, Nevada). In addition, recent Ohio legislation proposes creating a form of receivership for failed schools. The proposed bill recommends the creation of a supervisory board, similar to that provided for traditional schools in fiscal emergency, to manage any community school failing for financial reasons through the end of the school year. Although community school opponents have criticized the concept of operating a community school after it has succumbed to financial failure, a brief period of transition may be needed to place

students of the school in the appropriate alternative learning environment. Increased oversight by the sponsor would help identify community schools that may be headed into financial peril and either prevent abrupt closure for financial reasons or provide students and their parents an opportunity to find a suitable school before the community school closes.

### **Recommendations 8-9:**

- 8. ODE should advocate legislation to create a probationary period for community schools that may be in violation of their charter or State laws or rules, but are willing and able to complete a corrective action plan to rectify the non-compliance. A probationary period should also be considered for community schools that may be in danger of contract non-renewal or financial failure. Examples of statutes from Delaware, Connecticut and Arizona may provide a template for the development of a community school probation statute. ODE should also promote the adoption of legislation permitting the authorizer to operate a failing community school for a finite period prior to contract termination.**

**ODE should also support legislation permitting contract termination by both the sponsor and, in a limited range of circumstances, the OSBE as the community school oversight body. These circumstances should be limited to imminent danger to the health and safety of the community school employees and pupils or violations of the law that threaten the well-being of school employees or students. OSBE should only terminate contracts in cases where the sponsor refuses to enact contract termination. The sponsor should act as the primary responsible party with OSBE intervention occurring only under extraordinary circumstances. The criteria for contract termination should include elements such as those found in New Hampshire, Nevada, New York and North Carolina's statutes. By extending termination to the OSBE in a limited range of circumstances, the General Assembly can ensure that OSBE intervention is possible when a sponsor's support of its school overrides the obligation to close failing community schools.**

- 9. ODE should encourage the adoption of legislation addressing the distribution of assets in instances where a community school has closed or has been closed for academic, legal or financial reasons. A determination of those parties responsible for debt held by the community school should also be included. Assets should be used to pay any debts to creditors and employees of the community school. Any remaining funds should be returned to the State. It is important to assign liability for debts to ensure that all financial obligations of the community school are properly addressed.**

## **D. Funding and Financing**

The ORC contains a detailed description of the funding methodology for community schools. As described in the ORC, community school per pupil amounts are deducted from the district-of-

residence's State Foundation revenue. ODE is responsible for operationalizing the funding methodology outlined in the ORC.

Since the inception of community schools in Ohio, ODE has changed the funding methodology on three separate occasions (see **funding** section). Each change has been in response to a problem with a community school or a group of community schools. ODE has delegated the authority to verify student numbers prior to payment to the districts-of-residence which creates a conflict of interest between districts-of-residence that are losing funding and community schools that require payment for services rendered. Transferring the power to verify FTEs for payment and deny payment based on invalid community school information from ODE to the district-of-residence schools increases the likelihood of false reporting and stonewalling by traditional public school districts.

ODE's changes in funding methodology have also cut funding to community schools during critical months. For example, because of overestimations of projected student enrollment during community schools' first year of operation, ODE has restricted July and August funding to 50 percent of estimated enrollment. The ORC provides limited statutory guidance to ODE on funding methodologies. However, the 50 percent reduction in funding harms community schools during a crucial period of the school year. Exemptions are not made for schools with stable track records or past histories of accurate estimates so that even experienced schools who may be adding grades undergo funding reductions.

The complexity of the funding methodology creates additional complications in ensuring accurate payment for FTEs to community schools. ODE's antiquated technology also creates difficulties in calculating Title 1 funding and tracking student utilization of the public education system during the school year.

The source of funds for community schools continues to be an issue of contention in the community school debate. The funding for community schools is currently derived from State funds based on the State Foundation Formula. A traditional public school district's capability to fund its educational programs is based on its adjusted recognized valuation (ARV). The difference between the ARV and the per pupil amount (adjusted for the cost-of-doing-business) is the "state share" of the cost of education. As described in the LOEO report, *Community Schools in Ohio: Second Year Implementation Report, Vol. 1*, funding for community school pupils is drawn from the state share of funding to local traditional school districts. However, opponents of community schools assert that local and state funding cannot be easily divided and community school per pupil amounts indeed contain local dollars.

In some states, radical changes have been made to the public education funding system to redress funding discrepancies and quell the funding debates. Michigan, for example, undertook radical constitutional changes to its school funding system. These changes have created an environment that may better support charter schools and other entrepreneurial models in education. Ohio has used a more conservative approach to school funding reform, making incremental changes in the funding

methodology. However, the interplay between State and local dollars, especially in the case of community schools, remains an issue.

In Ohio, the State funds approximately 46 percent of public school revenues. This amount has increased slightly throughout the past decade. Recent changes to the Foundation formula may have increased the level of State funding responsibility, but the issue has not been studied since the changes were implemented. National studies have determined that states with the highest density of charter schools tend to have slightly higher than average funding responsibilities. Yet, a strong correlation between state funding and innovation has not been demonstrated.

A U.S. Department of Education study *Venturesome Capital: State Charter School Finance Systems* determined that the manner in which students are funded varies greatly between states. Some states limit charter school funding to state and Federal revenues. Other states provide all funding (local, state and Federal) or a percentage of total funding to the charter school. However, the study concluded that, despite all the attention paid to charter school funding, the differing methodologies of how much funding follows a student and the funding sources ultimately has little effect on district or charter school finances.

The path of funding, though, is an important issue because misunderstandings over the funding path have led to misleading conclusions. A common misconception is that school districts pay charter schools for students. In fact, new public school students generate new state aid for school districts in amounts equivalent to the entire state foundation level. This amount is then paid to the charter school, leaving the district-of-residence financially unaffected (see also **community school funding** section). The method of counting pupils as members of the district-of-residence and subtracting the per-pupil amount owed to the charter school from the district's foundation payment is used in Ohio, California, Colorado, Florida, Massachusetts and several other states.

Community school start-up and implementation grants are not administered in a manner congruent with statute, Federal regulations and State law. ODE representatives provide varying interpretations of grant rules prior to and during the administration of grants, which creates confusion in the grant administration process. Also, ODE has not tracked or audited expenditures for State start-up grants on a regular basis. Community schools have also been excluded from public school grants in a number of areas, contrary to the rules of the grant. Because of the fluctuations in ODE grant and funding policy, community schools may be excluded from receiving funding to which they are entitled. In extreme cases, adjustments and funding flow may irreparably harm a community school's financial position and drive the school into financial failure.

ORC § 3314.03(a)(2) requires all Ohio community schools to apply for and receive Ohio not-for-profit status. The not-for-profit status exempts community schools from State sales tax. However, community schools are not required to receive Federal tax exemption under the 501(c)(3) IRS designation for charitable foundations. As a result, some community schools use Ohio taxpayer dollars to pay Federal corporation taxes. In the first community schools implementation report, LOEO noted that paying Federal corporation taxes as a result of a community school's inability to

obtain 501(c)(3) status was a poor use of State monies and did not appropriately safeguard the resources of taxpayers. In FY 1999-00, only 61 percent of Ohio community schools had obtained Federal tax exempt status. LOEO recommended that all Ohio community schools obtain Federal 501(c)(3) status.

Although no community schools have paid Federal corporation taxes to date, it is likely that some schools will generate sufficient revenues to incur Federal corporation taxes in the future. Federal tax exemption requirements include using an elected board to run the organization which would restrict the role of management companies in some community schools. However, obtaining Federal tax exemption would put community schools on par with traditional public schools in their tax liabilities and potentially open avenues to additional resources for the community schools.

Recent Ohio legislation proposes allowing for-profit institutions to charter community schools. In these cases, Ohio tax dollars would be used to pay both State and Federal taxes which would detract from the funds available to educate children. Federal tax exempt status requires community schools to be organized for the benefit of the public and not for the benefit of a private person or corporation. As the intent of community school statutes is to expand educational opportunities for public school students, implementing a community school governing structure that does not reflect the public service emphasis may detract from school's ability to reap the same benefits as other public institutions.

In both the case of for-profit schools and those that are not Federally tax exempt, the board may be dominated by management company representatives. Both LOEO and AOS have expressed concerns that these governing boards may not be representative of the community school's constituents and may potentially encounter conflicts of interest between the needs of the school and those of school service providers. If independent elected boards were emphasized as a criterion for contracts, management companies would be required to withdraw permanent members from Ohio community school governing boards.

The ORC exempts community schools from most ad valorem taxes. Ad valorem taxes are taxes imposed on the basis of the monetary value of the taxed item. Literally the term means *according to value*. Ad valorem taxes are determined for two classes of property: real and personal property such as land, buildings, and cars, and intangible property such as stocks, bonds, and savings. In Ohio, community schools are exempt from ad valorem taxes on public schoolhouses, school tangible property, and the school grounds so long as they are not leased or otherwise used to generate profit. Also leaseholds, or other estates or property, real or personal, given to a community school district for the free education of youth without charge then the property is exempt (ORC §5709.07). Florida and Michigan both explicitly exempt their charter schools from paying all types of ad valorem taxes.

Ohio community schools are not exempt from ad valorem taxes on leased equipment. Also, there is no exemption for property rented by a public school from a for-profit company or for property rented by a school for the purposes of generating a profit. Florida law exempts individual property

owners from property tax on facilities leased to charter schools. (See also **community school facilities** section.).

During AOS interviews, Ohio community school officials reported difficulties in establishing lines of credit that would allow for the purchase of supplies and educational materials. Revolving credit is available, but the interest rates are high and the use of purchase agreements may extend payments beyond end of the fiscal year in which debt was incurred. The ORC prohibition against community schools carrying debt beyond the fiscal year in which the debt was incurred makes it difficult for community schools to use credit in the prior fiscal year to purchase for the upcoming school year. However, recent interpretations of the ORC prohibition against long-term borrowing have indicated that borrowing is permitted so long as assets and revenues other than those derived from State Foundation payments are used to secure the loan (see **community school funding** section).

In a survey of other Charter School Law state's statutes, none prohibiting or permitting borrowing were identified. Acquisition of debt is allowed in approximately 85 percent of Charter School Law states' per state statutes. In some states, the statutes indicated that debts incurred by the charter school remained with the charter school and were not the liability of the sponsor or state. Also, in several states, such as Florida, Minnesota, California, Colorado, and North Carolina, facility borrowing is outlined, sometimes in great detail. The ORC prohibition against borrowing has been relaxed under HB 94 to permit the use of the State's guaranteed loan pool. However, community school officials have indicated that other types of borrowing are needed to fund fixed asset purchases, such as computers and laboratory equipment. The inability to borrow has led several community schools to ignore the ORC requirement (see **Table 4-8** in the **funding** section), as indicated in AOS reports.

### **Recommendations 10-13:**

- 10. ODE should support legislation requiring all community schools to obtain Federal tax exempt status under section 501(c)(3). All community schools that are eligible for 501(c)(3) status should obtain Federal tax exempt status within their first year of operation. Finally, sponsors should examine the governance structure of all community school proposals to determine eligibility for 501(c)(3) status.**
- 11. ODE should advocate legislation requiring all community schools to be governed by independent boards. The ORC should specify that the board be comprised of five to seven members independent of persons involved in a business relationship with the school. Independence could be encouraged by extending existing public employee ethics laws to community school board members. Also, every effort should be made to recruit board members who have an expertise that is beneficial to the community school.**

**ODE should also support changes to the ORC to prohibit management companies from directly developing and operating a community school. However, if a management company or other private entity desired to become a sponsor, the company could form a charitable foundation for that purpose. This model has been used by the Ford Motor**

**Company to open a charter school through its non-profit cultural institution, Greenfield Village and Henry Ford Museum. Management companies should only be paid for the services provided to the community schools, expenses incurred on its behalf plus a reasonable profit. (See also community school monitoring and program oversight section.).**

- 12. ODE should examining funding methodologies in other Charter School Law states to determine if the provision of state funds is operationalized in the same manner as in Ohio. ODE should report its findings to the legislature by June 30, 2002 and annually thereafter. Although the funding debate may continue to overshadow the relationship between community and public schools, ODE should obtain empirical evidence on the methods and proportions of state and local funding used in other Charter School Law states. The impact of statutory changes and per pupil funding increases should be examined in relation to both traditional public school districts and community schools.**

**ODE's findings should be included in the annual report described in recommendation 6. As funding remains part of the continuing debate over community schools, a calculation showing the funding differences between community schools and traditional public districts should be included. Such a comparison addresses legitimate questions raised in the debate on funding for community schools and equity between public schools in different regions of the State. Revenue amounts should be benchmarked on an annual basis and shown both in aggregate and by source (local, State, Federal and private). Finally, the report should include longitudinal information to communicate changes in funding during the past ten years.**

- 13. ODE should recommend statutory changes to the Ohio General Assembly to exempt non-profit community schools from ad valorem taxes on leased equipment and property. Extending this exemption to non-profit community schools would put them on par with traditional districts in relation to their tax liability. Exemption from these ad valorem taxes would increase community school funds available for student instruction. (See community school facilities section for a recommendation on individual tax exemptions for community school rental property leaseholders.).**

## **E. Contract Period**

Ohio community school officials have asserted that the short contract length stipulated in the ORC (five years) created barriers to obtaining third party funding and facilities. However, five years appears to be the most common maximum charter term used by other Charter School Law states. **Table 2-7** shows the range of maximum charter terms.

**Table 2-7: Maximum Term of Charter School Contract**

Maximum Term of Initial Charter	States	#	%
3 years	AR, DE, KS, VA, MN, OK, SC, UT	8	22.2%
4 years	HI, MS, NJ	3	8.3%
5 years	CA, CO, CT, GA, ID, IL, FL <sup>1</sup> , LA, MA, NH, NM, NY, NC, OH, OR, PA, RI, WI, WY	19	<b>52.8%</b>
6 years	NV	1	2.8%
10 years	AK, MI, MO	3	8.3%
15 years	AZ, DC	2	5.6%
<b>Total</b>	<b>N/A</b>	<b>36</b>	<b>100.0%</b>

**Source:** Charter School Law States' Statutes

**Note:** IN's term is no less than three years, TX's term is specified in the charter, usually five years

<sup>1</sup> FL permits a renewal for 15 years after the first 3 years of operation.

Short charter terms appear to be the norm with approximately 75 percent of maximum charter terms expiring within five years of the initial chartering date. However, several states use terms beyond the common three to five-year period. Arizona charters schools for up to 15 years per contract with reviews undertaken every five years. Florida will renew a contract for a maximum of 15 years after the first 3 years of operation. Also, Michigan, Alaska and Missouri grant charters for 10 years. Indiana uses a minimum of three years while Texas uses a term that is specified in the charter.

As a large number of states fall into the three to five-year charter term groups, strategies for obtaining third-party funding and procuring facilities may be well developed in other Charter School Law states. Ohio's community schools have not extensively researched the strategies used in other states to mitigate problems caused by short charter terms. OSO also has not pursued research on methods used in other Charter School Law states to overcome barriers created by short chartering periods. Some methods are described in the **community school facilities** section and include several schools borrowing as a consortium, developing more extensive State revolving loan funds, and permitting the use of consumer credit.

Community schools' assertions that the five-year chartering period is too short to allow for the development of strong planned giving programs and the maturation of programs to build school infrastructure appears inaccurate when compared to programs and chartering terms in other states. Yet, extended chartering periods for established, high-performing community schools would provide a greater degree of long-term stability for community school pupils and their parents. Further, the option to increase charter term length after an appropriate demonstration period may allow community schools to better develop educational strategies to meet the needs of their target populations.

**Recommendation 14:**

- 14. ODE should promote legislation to amend the ORC to permit extending chartering term beyond five years after a community school has demonstrated financial stability, satisfactory progress in student achievement and its ability to perform in accordance with its charter and State laws and regulations. An increased term after an appropriate demonstration period would allow community schools to solidify planned giving and other donation programs; secure, retain and upgrade community school facilities; and implement long-term plans to tailor educational strategies to the school's target population.**

**F. OSBE and ODE Statutory Compliance and Interpretation**

On a national level, state education departments are confused about how they should deal with charter schools. Some have the impression that they are to keep “hands off” while others assume that charter schools must adhere to the same standards as other public schools. Most simply assume that if other public schools must adhere to a particular regulation, the charter school is similarly obligated unless otherwise specified. OSBE and ODE appear to have adopted the former stance. ORC § 3314 limits the statutory requirements imposed on community schools, including several statutes related to interaction between OSBE and public schools. Furthermore, the limited enumeration of OSBE statutory duties has caused OSBE and ODE to adopt a cautious approach to community school oversight, even in cases where their statutory duties would permit a greater level of scrutiny over community school functions.

The ORC provides for two distinct functions through the OSBE. First, the OSBE may authorize community schools and act as a statewide sponsor. Second, OSBE is required to operate a department within ODE dedicated to providing technical assistance and support to all Ohio community schools.

OSBE acted as the authorizing authority during the first year of community school implementation in Ohio. By the time year two schools were applying for authorization, the contract review function had been delegated to the newly formed OSO within ODE. The OSBE continues to approve contracts based on the recommendations of OSO.

OSO was created immediately following the implementation of community school law in Ohio. OSO was staffed initially with approximately 4.0 full-time employees, but the number has been increased to 9.0 full-time employees dispersed through OSO and OSF. OSO has struggled with its role as technical advisor to the community schools. This may be a result of the limited experience of OSO in community school operation and administration. During the four years of community school operation in Ohio, OSO has improved its training program and its materials for community schools. However, OSO provides training and materials only to state-sponsored schools. By ignoring non-state-sponsored schools, OSO is only fulfilling half of its ORC mandate.

Delegation of community school charter review from OSBE to OSO has created additional work within OSO that has not been backed up with additional staffing. OSO appears to spend a large portion of its time in review of proposed charters. The charter review process has improved within OSO but still has some areas in need of additional improvement (see **management and oversight** section). Further, the inclusion of home schooling and voucher program duties under the umbrella of OSO has created an additional drain on resources available for administration of the Community School Program.

Some confusion on the part of state-sponsored community schools results from the dual roles assigned to OSO – helper and enforcer. Because OSO has implemented limited training and monitoring programs, it emphasizes the role of enforcer to ensure community school compliance with ODE rules and State laws. OSO only works with state-sponsored schools on a limited basis and, as a result, most contact between OSO and state-sponsored schools is punitive. This makes it difficult for OSO to win and keep the trust of those community schools that need to rely on the office for more in-depth technical assistance.

A community school risks sanctions if it calls OSO for technical assistance in some basic areas such as the Educational Management Information System (EMIS), the Uniform School Accounting System (USAS), and FTE reporting. This may discourage some community schools from using the limited technical assistance available. During interviews, several community school officials requested additional training and noted the lack of specialized training, regionalized training and computer-based or distance learning for community school officials. Also noted was an absence of adequately detailed handbooks for certain ODE systems that take into account the unique circumstances of most community schools. If OSO implements the recommendations contained in this review to train community school operators and monitor community schools throughout the year, compliance reviews would become more perfunctory and less punitive.

ODE has only performed limited oversight functions for community schools in the area of school finance through OSF. Other areas, specifically student achievement (ORC § 3307.10-11), code compliance (ORC § 3314.03(A)(11)(d)), charter fulfillment (ORC § 3314.03), learning opportunities offered (ORC § 3314.03(A)(11)(a)) and special education compliance (ORC Chapter 3323), have been delegated to OSO or ignored altogether. ODE has chosen to not implement the same level of oversight for community public schools as is provided for traditional public schools in these areas.

Most importantly, OSBE and ODE have chosen to interpret their legislative mandate in its narrowest form. In several areas where ODE has the statutory responsibility to interact with community schools, systems of oversight and client service that are extended to traditional school districts have not been extended to community schools. This is particularly evident in the area of special education. Furthermore, ODE and OSO have chosen to divest themselves of the responsibility of aiding and monitoring non-state sponsored schools, in direct contradiction to the ORC. In other areas, such as community school funding, ODE may have operationalized the statute in a manner inconsistent with good business practices by minimizing FTE oversight and reducing Foundation funding amounts during critical community school operating periods.

During the past four years, ODE has not used its internal resources to support the community school system in Ohio. Existing departments and processes, like those found in the Center for Students Families and Communities (services for exceptional children), Center for Curriculum and Assessment (curriculum assistance/guidance, assessments), and Center for Finance and School Accountability (school finance, grants management and accountability), have not been used to assist, monitor or improve the community school system in Ohio. ODE's reluctance to use existing resources to support the community school program and the narrow interpretation of its responsibilities has exposed ODE to criticism in the areas of technical assistance, monitoring and oversight. Such criticism and limited initiative also calls into question ODE's ability to expand its role in monitoring the community schools program.

Community schools have floundered financially and academically without the provision of basic services extended by ODE to traditional public schools. ODE has not collected or distributed reliable data which would allow stakeholders to examine community schools' progress with students. Anecdotal evidence suggests success in some areas, but overall, OSBE and ODE's limited involvement in the community school program has impacted the efficiency of Ohio's community schools. The uncertainty in OSBE and ODE's role in the program, coupled with the limited resources devoted to community schools has created an atmosphere of self-limiting behavior on a variety of educational issues associated with community schools.

In New Hampshire, the role of the state board is well defined and includes the following responsibilities:

- Publish a sample charter school contract agreement.
- Disseminate information to the public on ways to form, convert, and operate a charter school.
- Promulgate uniform statewide annual deadlines and procedures for pupil enrollment applications and school and parental enrollment decisions for charter and open enrollment schools.
- Develop procedures and guidelines for revocation and renewal of a school's charter.
- Study and make recommendations regarding the implementation and effectiveness of charter and open enrollment schools.
- Ensure that the operation of charter schools does not result in illegal discrimination against any category of pupils.

New Hampshire's statutes do not reflect an oversight role except in the area of non-discrimination of pupils. Instead, it provides the state board with broad responsibilities in assisting charter schools with their development and technical needs. Oversight is exercised at the local level in New Hampshire. **Table 2-8** shows the responsibilities of other Charter School Law states' boards of education as outlined in their statutes.

**Table 2-8: Responsibilities of State Boards of Education**

Responsibilities of the State Board	State
None.	Alaska New York Pennsylvania
None. All responsibilities are between the charter applicant, the Department of Education, and the sponsor.	Florida Wisconsin
None. Everything is performed at the local level.	Virginia Minnesota
Grant, renew and terminate charters.	Arkansas California Connecticut Delaware Kansas New Hampshire Rhode Island Indiana Texas
Grant, renew and terminate charters and hear appeals.	Colorado Georgia
Grant all charters and establish the requirements for the charter school application.	Massachusetts
Grant, renew and terminate charters and supervise the system.	Arizona
Grant, renew and terminate charters and supervise the system. Receive and review annual reports.	Idaho
Grant, renew and terminate charters and supervise the system. Mediate in disputes. Receive and review annual reports.	North Carolina Utah
Grant charters and review all charter applications for approval. Administer loans and provide direction on oversight.	Louisiana
Mediate between sponsor and charter school in disputes or approvals. Approve all charters that have been approved by sponsors.	Missouri
Mediate in disputes.	New Mexico South Carolina
Approve contract between sponsor and charter school if compliant with the law.	Illinois
Report to the Legislature on charter schools and may suspend the power of authorizing bodies.	Michigan
Review applications for charter schools. Adopt rules and regulations to implement the Charter Schools Act.	New Jersey
Mediate disputes and review statutes to identify hindrances .	Nevada
Receive and review annual reports.	Wyoming

**Source:** Charter School Law States' Statutes.

As **Table 2-8** suggests, the responsibilities of the state board of education to charter schools vary greatly between Charter School Law states. Similarities between the proposed duties of the state board (see **recommendation 1**) can be found in Illinois, Michigan and New Jersey. Since ODE's role has been outlined as a technical assistance function through OSO, potential augmentation of

ODE's role as educational rule-maker and diminution of its enforcement requirements might facilitate the development of consistent state-wide support and procedures for community schools.

#### **Recommendations 15-17:**

- 15. ODE should delegate contract examination for state-sponsored schools to ODE's Law Department which is currently heavily involved in the contract approval process. If the legislature adopts the recommendations contained in this review, the Law Department should review all community school/sponsor contracts for the appropriate funding rules prior to OSBE signing the contract.**

**OSO's tasks should be reoriented toward providing technical assistance to all Ohio community schools. OSO should increase its focus on training and technical assistance for all Ohio community schools. OSO representatives should be actively involved in monitoring schools and sponsors and be easily accessible to community school operators in all regions of the State.**

- 16. ODE should implement more stringent financial monitoring procedures. ODE should request that all contracts include a clause requiring the development and submission of financial forecasts to sponsors. As a component of sponsorship, sponsors should be required to confirm the validity of forecasts and other budgetary projections. OSO should increase FTE monitoring to monthly for start-up schools and semi-annually for schools in their first contract term. Field agents should be used to verify FTE counts and the existence of appropriate individual education plans (IEPs). (See also community school funding section.). By increasing monitoring functions, OSO's role in the Community School Program would become more constructive and allow OSO to establish more positive relationships with community schools.**
- 17. ODE should use its vast experience in developing educational rules for traditional public schools to develop procedures and heightened technical assistance for community schools. Community schools should be integrated into the public education system OSO that each ODE department serves community schools on a level comparable to that provided to traditional public school districts. OSO should coordinate services for community schools between existing centers and offices.**

### **G. Community School Compliance with ORC**

Community schools are required to comply with several areas of the ORC. These include sunshine laws, privacy laws, and several areas of financial management and controls. During interviews with community school officials, unfamiliarity with ORC requirements was frequently cited as a barrier to maintaining operations in compliance with State law. Non-state sponsors tended to provide their schools with a greater degree of training in ORC requirements outside of ORC §3314. The training provided by non-state sponsors tended to focus on a layman's understanding of ORC requirements.

Materials provided by OSO and available through the ODE web site tend to focus community school attention on the requirements of Chapter 33 (Education and Libraries) and specifically ORC §3314. Emphasis is also placed on EMIS, FTE reporting, special education requirements and other educationally-centered issues. Where areas of the ORC are covered in training or in ODE literature, compliance tends to be higher, even if some community schools fall short in operationalizing the requirement. There is a demonstrated effort by community schools to use EMIS, USAS and other required systems.

In areas that are not covered in ODE training or literature, several shortcomings were identified. Most of the shortcomings centered around record keeping and financial management. Areas identified in evaluations performed by ODE and audits performed by the Auditor of State remain uncorrected. The probable cause for inattention to areas of non-compliance may be unfamiliarity with ORC requirements and limited experience in school or governmental operations. In schools with high degrees of compliance with ORC requirements, administrators had former work experience in school finance or school administration, and/or board members had similar kinds of experience and were able to provide guidance to the school's administration.

As a component of regular financial audits, the Auditor of State conducted compliance reviews on certain ORC requirements. In the course of compliance testing for FY2000-01, several areas of non-compliance were identified. The areas with the highest rates of non-compliance are shown in **Table 2-9**.

**Table 2-9: ORC Violations Cited in Community School Audit Reports**

<b>Recommendation</b>	<b>Percent</b>
Maintaining Board Minutes (ORC §121.22)	45.0%
Monitoring Financial or System Controls (ORC § 5705)	45.0%
Personnel Contracts (Date of hire, wage, deductions and certifications) (ORC §3319.08)	20.0%
Public Records Availability (ORC §149.43) and Formal Policy for Public Records	15.0%
Conflict of Interest Policy (ORC §3313.33)	12.5%
Record Retention (ORC §149.351)	10.0%

**Source:** Auditor of State FY 1999-00 Community School Financial Audit Management Letters

**Note:** See also **Table 4-8** in the **community school funding** section.

The absence of board minutes, the most prevalent ORC violation, impacts a community school's ability to demonstrate that operating decisions were made by the governing authority, in compliance with ORC requirements. Like the board minutes, records retention, personnel contracts and public records are essential to demonstrate a school's accountability to its sponsor, the legislature and the citizenry. Lapses in monitoring financial and other system controls expose the community school to fraudulent expenditures and potential legal findings for recovery of funds. In extreme cases, poor monitoring of controls has led to financial failure.

Other areas of minor non-compliance were noted as well. In 7.5 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Providing proof of teacher certification (ORC § 3319.08)
- Developing a policy on the employment of family or close friends (ORC § 3319.21)

In 5.0 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Developing a data retention policy (ORC § 149.01, 3319.32-3319.35)
- Submitting EMIS reports to ODE (ORC § 3301.0714)
- Authorizing of all contracts by board (ORC § 3313.17)

In 2.5 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Conducting background checks on applicants who apply to the district (ORC § 3319.39(A)(1))
- Establishing a formal travel policy (ORC § 3313.12, 3315.06, and 3315.15)

Less frequent instances of ORC non-compliance may indicate a greater level of overall familiarity with these statutes by the community schools. However, the absence of board minutes and system control monitoring practices shown in **Table 2-9** occur in a large number of schools and point to a limited understanding of governmental entity procedures by community school developers and operators. While community schools must have the greatest level of understanding for the conditions of ORC § 3314, they also must be sufficiently familiar with the remainder of ORC Chapter 33 to fulfill all pertinent ORC requirements.

Central Michigan University (CMU), a Michigan charter school sponsor, noted that its schools were having substantial difficulty in meeting reporting requirements for State and Federal programs. CMU identified all reporting and compliance requirements for its schools and prepared a CD-ROM explaining exactly what had to be done. In future years, CMU's charter schools will receive their CD-ROMs with reporting schedules, template forms and the previous year's data for easy amendment and electronic filing.

### **Recommendations 18-20:**

- 18. OSO should provide intensive training to prospective board members to acquaint them with their statutory duties under the ORC. Likewise, new community school administrators should be required to undergo a brief but intensive training on school operations under Ohio statutes. Finally, AOS has developed an online training course *Ohio Financial Accountability Certification* that would aid community school board members and administrators in better understanding their fiduciary responsibilities**

as they relate to government finance. The online course should be strongly recommended to community school operators and board members.

19. **Community school officials should ensure their compliance with Ohio law and confirm redress of management letter comments prior to the next audit period. As recommended in AOS management letters, community schools should establish audit committees to oversee the rectification of financial management and control problems identified in financial audits.**
20. **Community school sponsors should closely monitor community schools' development of governing board minutes and financial and other system controls. Because these areas show the greatest incidence rate of non-compliance, additional attention may be needed to ensure complete adherence to Ohio law and standard practice. Community school governing boards should ensure that their actions are adequately documented in written form.**

## H. ORC Exemptions for Community Schools

Community schools are exempt from several ORC statutes that govern public schools. **Appendix A** contains a breakdown of statutes by topic and shows exemptions and non-exemptions. In general, ORC requirements and exemptions fall into eleven broad categories. These categories are as follows:

- Curriculum requirements;
- Enrollment requirements;
- Organizational requirements;
- Financial management;
- Human resources management;
- Facilities;
- Food Service;
- Transportation;
- Student records;
- Student health; and
- Other statutes (miscellaneous).

During AOS interviews, community school officials noted that the exemptions comprised “trivial” areas and that community schools were required to meet all important statutory requirements. On the other hand, traditional public school officials have interpreted the exemptions to comprise highly important statutory requirements and feel that the statutory exemptions should be reexamined.

The varying interpretations on exemptions are better understood when examined by topic. In the area of **educational and curriculum standards (Table A-1)**, community schools are exempt from all requirements except those related to special education. Because community school officials usually have no prior public school experience, their understanding of the restrictions created by curriculum

requirements is limited. Public school officials, on the other hand, must work within the constraints of the State curriculum and educational standards and believe the importance of such requirements is most apparent in students who may return to the district of residence after attending a community school.

**Enrollment requirements (Table A-2)** are also relaxed for community schools which must adhere to requirements related to the admittance of kindergartners and participation in post secondary options. Traditional public schools, which may struggle under compulsory education, open enrollment and truancy statutes, are understandably concerned about the lax enrollment requirements for community schools. However, the charter school model requires nimble enrollment requirements and the ability for a community school to grow on a grade by grade basis. More flexible enrollment policies are necessary to allow community schools to grow at a rate commensurate with their abilities to provide instruction to students.

Community schools are not required to follow ORC **organizational requirements (Table A-3)** relating to the formation of a board or the development of rules. Recent problems surrounding the role of management company representatives on boards and the impact of their decisions on the governance of the school call into question the responsibility of sponsors and the legislature in offering limited guidance on the development and responsibilities of the governing board. Further, conflicts of interest and the presence of the spouses of school managers on the governing board, may be at fault in some community school problems.

Community schools are also exempt from all ORC **financial management (Table A-4)** requirements except those related to state financial audits. Based on AOS audits, community schools may benefit from some statutory requirements on the training of financial officers, disposal of assets, tax exemptions, forecasting, purchase orders and cash controls. These areas have been noted to be continually weak in the financial management and operation of community schools. This requirement is consistent with most other Charter School Law states (63 percent). The fact that charter schools do not have much freedom from state audit regulations reflects the expectation of accountability for public funds.

Community schools are exempt from several ORC requirements in the area of **human resources management (Table A-5)**. However, community schools are required to adhere to ORC requirements for the State Teachers Retirement System (STRS), School Employees Retirement System (SERS), Occupational Health and Safety regulations, Ohio's Equal Pay Act, Civil Rights Act, Whistle-blower Law, Collective Bargaining Law, Worker's Compensation Law and Unemployment Compensation Law. Community school officials noted that the STRS and SERS surcharges for part-time employees had a dramatic impact on their operating revenues. Further, certification requirements were noted as a barrier to obtaining qualified educational personnel, a sentiment echoed by the traditional districts interviewed. Although Ohio recently amended its certification requirements to permit an individual to teach prior to fulfilling university education requirements, the amendment requires the individual to pass the state licensure test prior to employment in a school. In its current form, the amended certification law does not meet the needs

of community schools or public districts as on-the-job and concurrent training is not feasible. New Jersey, Illinois and Colorado have amended certification requirements to permit college-educated professionals to teach after receiving a short period of intensive training and continuing their education through the pursuit of a Master's degree in education through their first two years on the job.

Community schools are exempt from all ORC requirements in the areas of **facilities (Table A-6)** and **food service (Table A-7)**. However, under ORC § 3314, community schools are required to adhere to all *Public School Building Codes*. An intensive search of ORC, Ohio Administrative Code (OAC) and Ohio School Facilities Commission (OSFC) records indicates that public school building codes have not been defined. Instead, community schools are currently required to meet all Ohio Basic Building Code standards as defined in ORC § 3791. In the area of **transportation (Table A-8)** community schools must adhere to bus driver requirements as specified in ORC § 3327.10.

ORC **student record and reporting requirements (Table A-9)** are also relaxed for community schools. Community schools must maintain student privacy and submit to record requests from a student's new school, but are exempt from keeping photo records of the child, collecting certain statistical data and reporting annual updates on these statistics, and certain student offenses to the OSBE.

Community school officials, however, described several problems with the use of EMIS as the fields for teachers and administrators are too narrow to show the tasks undertaken in community schools. Furthermore, community schools input data on a monthly basis but then must replicate the data by hand to submit FTE accounting for repayment by ODE. Community school officials stated on several occasions that the information they provide in FTE reports is the same data input into EMIS. ODE's reluctance to use EMIS for FTE reporting indicates a lack of confidence in EMIS and an over-reliance on manual processes and requires the community schools to perform what essentially is monthly "busy work." Although ODE is updating the FTE process (see **community school funding**), an update of EMIS to integrate reporting modules is not expected until 2004.

Also, ODE has reportedly undertaken a student records management project to update the EMIS system. However, this system will be developed in accordance with ORC § 3301.0714(D)(1) which prohibits "the reporting...of any personally identifiable information about any student, including a student's social security number, name, or address, to the state board of education or the department of education or to any other person...." The applicability of and need for a statewide student records management system that contains student identifiers is great as it would alleviate record exchange problems faced by both community and public schools. Several secured systems containing highly personal data are maintained by other Ohio agencies. ODE would need to gain the support of the Ohio General Assembly to change the ORC prohibition against a system of this type.

Community schools are required to adhere to several **student health requirements (Table A-10)** including child abuse reporting and certain types of medical screening. However, community schools are exempt from Medicaid Healthcheck requirements, requiring certain immunization records and

several provisions related to drug abuse prevention education. Neither community schools nor the traditional districts interviewed commented on the matter of student health requirements.

Finally, community schools are required to adhere to several ORC provisions that do not fall into a distinct category (**Table A-11**). These include the Ohio Ethics Law, sunshine laws, public records laws, proficiency testing, and laws and rules granting certain parent rights. It is under the miscellaneous category that several community school officials indicated the laws were restricting their ability to create innovation in education. When examining those ORC requirements and exemptions that do not fit into the prior categories, the exemptions in the miscellaneous category appear insignificant in comparison. However, the requirements embody several important requirements that ensure public access to information regarding the performance and operation of community schools. It is perhaps because of the wide variance in importance attributed to the Ohio Ethics Law, sunshine laws, and public records laws by community school officials that these were some of the most often noted areas of noncompliance.

Florida charter schools are exempt from most Florida education statutes. However, they are required to adhere to statutes similar to those imposed on Ohio community schools. An OPPAGA study of Florida charter schools found that charter school operators reported that increased autonomy and flexibility had several benefits. These benefits included the following:

- Expedited academic programming to meet individual student needs;
- Discontinuation of programs that did not produce intended results;
- Faster and lower cost purchasing;
- Flexibility in hiring and ability to fire non-performing staff; and
- Reduced reporting requirements.

Under Florida law, both traditional and charter schools may apply for waivers from additional requirements. The Florida Department of Education has reportedly approved hundreds of waivers of teacher certification requirements.

Nationally, half of the 38 Charter School Law states automatically exempt charter schools from many state laws and regulations. The other half either require negotiation for exemptions, issue waivers on a case by case basis or ban waivers altogether. The U.S. Department of Education identified four major exemptions from state education regulations. These exemptions are as follows:

- Freedom from collective bargaining requirements (72 percent of all charter school laws);
- Freedom from state teacher certification and credentialing requirements (60 percent of all charter school laws);
- Freedom from state budgeting and auditing requirements (14 percent of all charter school laws); and
- Freedom from student assessments (14 percent of all charter school laws)

The emphasis on state budgeting and auditing requirements, and state student assessments indicates a continued emphasis on accountability over public funds.

**Recommendations 21-25:**

- 21. ODE should promote legislation to retract some of the ORC exemptions surrounding the organizational structure and management of community schools. Specifically, governing board members should not be involved in a business relationship with the community school. All governing boards should be independent bodies reflective of the school and community in which they serve.**
- 22. ODE should advocate legislation to retract some of the ORC exemptions for financial management and reporting. Specifically, criteria for financial officer training, forecasting and cash controls may merit additional regulation in Ohio community school laws. The individual serving as a financial officer for a community school should be required to obtain 40 hours of continuing education in financial management and accountability on an annual basis. All community schools should be required to use annual budgets and produce five-year forecasts like other public schools.**
- 23. ODE should recommend that the General Assembly revise ORC § 3314.05 to remove the language surrounding *Public School Building Codes* and replace it with *Ohio Basic Building Code standards*. As *Public School Building Codes* have not been developed independent of the *Ohio Basic Building Code*, a modification of the language would provide community school operators with greater clarity in the requirements for community school facilities.**
- 24. OSO should ensure that all community school officials receive sufficient training on Ohio laws including public records laws, sunshine laws and Ohio ethics laws.**
- 25. ODE should promote legislation to update Ohio teacher certification requirements for candidates who hold bachelors' degrees in an appropriate subject to include an on-the-job training or mentoring program to be used in conjunction with Masters' degree studies in education. Practices like those used in New Jersey and Indiana would help alleviate the shortage of qualified candidates in both community schools and traditional public school districts.**

**I. Special and Vocational Education**

Several community schools were developed especially to serve special education students. Although disability advocates have expressed concern that special needs populations may be excluded from community schools, national and other studies performed by Charter School Law states' have shown that the percentage of students with disabilities served in community schools is comparable with those served in traditional public school districts. A recent Michigan study and follow-up report

found that as community schools mature, their populations of disabled students grow to mirror those of the districts-of-residence. Low populations of students with disabilities in first and second year community schools may result from under-identification, which is usually resolved as the school matures. Also, community school operators sometimes have difficulty in obtaining information about a student's disability status, either because the parent does not want to divulge the nature of the disability or the district-of-residence does not forward the student's IEP. However, the small classroom size typical of community schools may encourage enrollment of children with disabilities and lead to earlier and more thorough identification of disabilities.

In schools that were developed to serve regular education students, some first and second year community schools were not sufficiently familiar with State and Federal law to appropriately administer services to students with special needs. Often, community schools that were not developed to serve special populations have difficulty serving special needs students. Staff members and school operators have little experience with special education and, because the schools are new, they may not have procedures in place to screen and provide services to special education students. Because of the low margin between operating costs and revenues, community schools may have difficulty obtaining all necessary services for special needs students. In some cases, scarce services and the high cost of services and assessments serve as a barrier to identification of needs.

Community schools are not familiar with the potential financial impact of inappropriately maintained IEPs. While the school may be billing ODE for services in accordance with a child's known disabilities, the absence of an updated IEP with corresponding professional assessments of the child's abilities can cause the community school to lose funding during the annual ODE-FTE audit. ODE representatives noted that, in annual FTE audits, inappropriately maintained IEPs often contributed to ODE "overpayments" and community schools being required to return funds to ODE. When a school was unable to document its classification of a child's disability, the special education weighted amounts were disallowed and the school was required to return the funds to ODE. The Federal Department of Education has developed a handbook for charter school personnel that further outlines the areas all charter schools must consider when serving special needs populations.

Although all Ohio public schools adhere to State and Federal regulations concerning the identification and serving of children with disabilities, ODE requires community schools to follow Ohio's Model Policies and Procedures for the Education of Children with Disabilities (Model Policies). The Model Policies handbook is highly detailed and very clear in its presentation of appropriate procedures for the identification and education of each category of disability. All state-sponsored community schools, per their contracts, must use the Model Policies in serving special needs students. However, ODE does not conduct regular follow-up to ensure adherence to the Model Policies.

ODE's Office of Exceptional Children (OEC) conducts procedural audits when it receives complaints about a community school's service to a special education student. ODE records showed a minimal number of complaints, but the OEC required corrective action plans of each school. Yet, OSO did not incorporate the corrective action plan into annual site visits and the OSO annual and

contract renewal evaluations do not include an examination of identification and educational practices for students with disabilities.

In contrast, the Pennsylvania Department of Education (PDE) has provided a substantial amount of technical assistance and guidance to Pennsylvania charter schools. Although few regulations for special education have been amended to accommodate charter schools on a national level, PDE has been very conscientious in its efforts to assist its charter schools in implementing special education services. PDE is considered a national leader in providing support to charter schools in the area of special education matters. PDE issues statements on special education geared to charter schools, has proposed charter school special education regulations to its legislature, and has developed a Charter School Resource Kit containing forms, regulations and general guidance documents. Training sessions at OSO include a special education emphasis with courses offered in procedural safeguards, evaluation, transition and behavior support. In addition, PDE conducts annual on-site visits to provide individual consultation regarding special education.

Likewise, Arizona has an enhanced special education program at the State level designed to meet the needs of charter schools. The Arizona Special Education Department assigned a contact person to each charter school to provide technical assistance. Also, Arizona requires all schools to submit documentation prior to receiving special education funds. The documentation includes child identification, IEPs, the types of facilities, the number and types of teachers and support personnel and the school's comprehensive system of special education development and parental involvement. Although the Arizona Department of Education expanded its technical assistance programs, charter school operators in Arizona stated that training was needed earlier in the school development process and should continue to be expanded in scope.

The Florida Department of Education (FDE) provides charter schools with a list of special education "do's and don'ts" which encapsulates the most basic special education requirements. The FDE also provides its charter schools with a comprehensive list of statutes at the State and Federal level that pertain to special education.

In contrast, a Michigan charter school study expressed several concerns with the management of special education within Michigan charter schools. The study questioned whether charter schools were fully living up to their obligation to serve special education students. In many Michigan charter schools, special education students are mainstreamed. This technique may be overused to reduce the financial impact of serving special populations. Also, some Michigan charter schools admitted special education students at the beginning of the school year but, after the ADM count, counseled the students to move to another educational setting.

Concern regarding excessive mainstreaming of special education students or limited identification of special populations have also been expressed at the national level. A U.S. Department of Education report on charter school finance remarked that the merits associated with mainstreaming and increased self-esteem stemming from the removal of special education labels must be weighed

against possible abuses. Offering no specific special education programs has the potential to discourage the enrollment of special education students or may diminish needed services.

The use of FTE funding raises important implications for special education and at-risk students. The U.S. Department of Education study *Venturesome Capital* identified that, despite weighted funding, high absenteeism rates among special populations could cause charter schools serving these populations to experience reduced funding levels. The reduced funding per student may impact a charter school's ability to meet the extra educational needs of at-risk students. The loss of funding for charter schools and its impact on programs for at-risk students is not unique to charter schools. It appears that all schools districts that serve disadvantaged children face the same potential problems.

Most states use a weighted per-pupil amount methodology to fund special education. Funding is based on the identified handicap. Two longitudinal studies noted that special education expenditures had risen sharply in the past 25 years. The studies found that, on average, special education costs as a percent of all district expenditures rose from 4 percent to 7 percent. These cost increases are of particular importance to charter schools as the smaller size of charter schools makes the absorption of higher costs difficult. States that provide extra funding for high cost children help mitigate the impact of serving special populations on the educational programs for other students. A national study commissioned by the U.S. Department of Education recommended that states examine the feasibility of permitting charter schools that are not under school districts to provide arrangements for special education students in a manner similar to traditional school districts. Under most interpretations, a charter school must offer services for all special needs students internally. Traditional districts may provide services appropriate to the child in a location that is accessible to the student. Allowing charter schools to contract out services or serve some special populations through charter school consortia would relieve some of the special education financial burden on charter schools.

Vocational education also requires additional practices and policies beyond those required for regular education students; however, the increased costs of vocational education have not been studied on a national scale. Until FY 2001-02, the Ohio Foundation funding vocational education weighted amount was not extended to community schools. Community schools emphasizing the building trades have been formed and operated in Toledo (Academy of Business and Technology), Dayton (ISUS Trade and Technology Preparatory) and Cincinnati (ISUS Trade and Technology). ISUS Trade and Technology was the first community school to receive additional funds under the new funding rules. Operators of vocational education community schools noted that the increased costs of vocational education required additional support for instructional materials and teachers. Representatives from ISUS Trade and Technology commented to the Cincinnati Enquirer that the increased vocational education weighted amount would help support the school's year-round educational calendar. Both ISUS locations were established to target failing and drop-out prone high school students.

**Recommendations 26-28:**

- 26. ODE should expand the checklist used for monitoring community schools to include all items that require measurement, compliance or benchmarking. Site visit checklists should include not only FTE reporting practices and student achievement, but also ODE enrollment trends for students with disabilities in community schools to ensure that all State and Federal laws guaranteeing access to free public education are fulfilled.**

**Special education requirements should be added to the annual monitoring checklist. All complaints surrounding community school services for students with disabilities should be fully investigated and corrective action plans should be developed. ODE and the school's sponsor should, during annual monitoring visits, ensure that the corrective action plan has been completed and that all instances of non-compliance are rectified.**

**OEC should conduct random site visits to ensure that all IEP conditions are being met and that students are served in the least restrictive environment applicable to their handicap. ODE should ensure that all contracts for community schools contain clauses requiring the school to follow Ohio's Model Policies. Model Policies should be included in OSO training on a regular basis. Also, during the annual monitoring site visit, OSO should document that the Model Policies are being employed. Finally, OSO should recommend that all community schools use U.S. Department of Education, Office of Civil Rights handbooks to ensure adherence to applicable Federal laws.**

- 27. OEC should regularly survey community schools to determine if the schools are obtaining appropriate assessment services and instructors. Shortages of such personnel and services have been noted in both traditional public schools and community schools. Community schools should be permitted to pool resources or obtain outside instruction for students with select special education needs as is permitted in traditional public schools. Under current ODE rules, community schools are not permitted to pool resources to make more effective use of their special education weighted funding. If a statutory change is required, ODE should support legislation to permit community schools to address special education needs in a manner similar to traditional public school districts.**
- 28. OSF should study the impact of additional special education and vocational education weighted amounts on community schools' ability to provide services to students. The impact of weighted amounts and their use in community schools should be tracked over a five year period and the data aggregated into a public report. As some community schools have reported that weighted amounts are insufficient to provide for certain disabilities and vocational education experiences, OSF's report could be used to determine if the weighted amounts adequately meet the costs of special and vocational education in Ohio.**

## **Future ORC Enhancements**

During the research for this project, the Auditor of State examined statutes from all Charter School Law states. For those states that began the development of charter schools early in the 1990's, it was noted that the statutes have undergone major revisions. In the final stages of fieldwork, statutory changes with sweeping implications were noted in California and Florida and were incorporated into certain sections of this report. Overall, experienced Charter School Law states have amended their charter school laws in an ongoing process to find the best fit with their system of education. As Ohio gains additional experience in the administration, monitoring and oversight of its community schools, legislative changes may be required to modify the system to best meet the needs of its public education system.

In its role as public education program administrator, ODE should take a leadership role in promoting positive change in the Community School Program. Within this operational review, 109 recommendations have been included emphasizing improvements to the Community School Program. ODE should foster legislative changes to the Program to increase the efficiency and effectiveness of Ohio's community schools. Finally, ODE must implement changes to its management of the community school program to guarantee that necessary changes are implemented in a timely and comprehensive manner.

While most amendments to Charter School Law states' statutes were incremental and addressed problems and shortcomings of prior legislative efforts, some statutes appeared to be in direct response to isolated incidents of school failure. In its endeavor to develop comprehensive laws to meet the needs of all public schools, Ohio lawmakers should ensure that statutory changes integrate the needs of all public education institutions and do not limit educational opportunity. ODE, as Ohio's public education rule maker, should ensure that the same holds true for new rules developed to address identified problems in community schools and their relationship with traditional public schools.

Future statutory changes are inevitable in developing the best system of public schools for Ohio. The inclusion of community schools has broadened choice and enhanced instructional innovation. However, continuing concerns over the financial and organizational stability of community schools sometimes overshadows the strides they have made for individual students during their short life-span in Ohio. As in other states, the community school system should become more stable over time, and the statutes governing their operation and interaction with traditional public schools will be tailored to best meet the needs of the citizenry and Ohio's public school students.

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# Community School Monitoring and Program Oversight

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## Background

In accordance with Ohio law, the Ohio State Board of Education (OSBE) is responsible for policy forming, planning and evaluative functions for the State's public schools. The Ohio Department of Education (ODE) is responsible for implementing OSBE educational policies and providing certain services to all public schools.

Ohio Revised Code (ORC) § 3314.01(B) creates community schools as public schools within the State of Ohio and establishes the following entities as potential sponsors of community schools:

- State Board of Education;
- Lucas County Educational Service Center (LCESC);
- University of Toledo;
- Board of Education in a "Big Eight" school district; or
- Board of Education in a county or district in academic emergency. (see also **community school law** section).

The sponsor contracts with the governing authority of the proposed community school and is responsible for monitoring the community school's performance and compliance with the contract. Contracts are limited to no more than five years. OSBE has delegated the responsibility for monitoring and oversight of state-sponsored community schools to the Superintendent of Public Instruction who manages the Ohio Department of Education (ODE). Within ODE, the Office of School Options (OSO) is responsible for monitoring state-sponsored community schools for contract compliance.

OSO was established by ORC to provide technical assistance to community school developers, sponsors and established community schools. Since FY 1999-00, OSO consultants have conducted pre-operational and semiannual site visits of state-sponsored community schools. During the site visits, OSO consultants determine the community school's compliance with the contract and legal requirements through inspection of the school's records, interviews with administrators and teachers, and classroom observations. OSO contracted with SchoolWorks to develop a model protocol for evaluating community schools for contract renewal. The model protocol was piloted in the Summer of 2000 with the Richard Allen Academy. Ten state-sponsored community schools are now in the fourth year of their five year contracts.

OSO is also responsible for managing the contract approval process for state sponsored schools. Although the timeline used for contract acceptance and approval has been revised, the timeline does

not reflect the needs of community school developers or start-up schools. Tight time frames at the conclusion of the approval process make it difficult for community school developers to secure facilities and hire teachers. Furthermore, ODE often misses its own deadlines during the contract approval process. In some cases of contract revisions, community school operators receive no response from OSO on the requested revisions.

LCESC, the University of Toledo, Cincinnati Public Schools (CPS), Akron Public Schools and Dayton Public Schools and several other sponsors are operating schools during FY 2001-02. The methods of monitoring and assisting the schools vary greatly, but local assistance and oversight appears to be the most effective. During interviews with community school operators, LCESC and CPS were cited as having the most effective monitoring programs. LCESC and CPS visit their schools on at least a monthly basis. OSO was cited as having the least effective monitoring and support system because consultants for all but one region are located in Columbus and are not accessible to community school operators. Sponsors conduct site visits and annual audits of their community schools. In the case of LCESC, the sponsor also acts as fiscal agent, monitoring revenues and expenditures for the community school.

Each community school is operated by a governing board. While not required to meet most statutes regarding school board operation, governing board's fulfill the same role for a community school and are required to adhere to Ohio Sunshine and Ethics laws. In some schools, management company representatives also fulfill roles on the governing board. Twice during the past four years this has created a substantial conflict of interest and, in one case, drove the school into financial failure.

As most community school operators begin their experience in education with little previous training in school operations, timely and complete technical assistance is of utmost importance. OSO offers some technical assistance, but only to state-sponsored community schools. LCESC also offers technical assistance through courses, forums and one-on-one training at the community school site.

Holding charter schools accountable is a vital function to maintaining strong charter schools. According to a U.S. Department of Education study, in 56.4 percent of states with charter school laws, charter schools must report to multiple agencies. Nationally, charter schools may be required to report to all or some of the following agencies:

- State educational agencies;
- State boards of education;
- The charter school authorizer;
- State auditor;
- State legislature; and
- Other state entities.

The intention of establishing charter schools is to improve student performance through increased educational flexibility. The increased flexibility results in the need for a higher level of accountability for charter schools than the traditional public schools model.

Through the history of community schools in Ohio, contention exists regarding the role of the monitor versus the use of market forces and “transparency” to ensure public accountability. Ohio has developed a hybrid with limited guidance about monitoring provided by the ORC, but with the responsibility lying at the local or sponsor level. Charter schools operate as public schools, with sponsors retaining the monitoring responsibilities. This report section addresses the most pressing issues in monitoring and oversight. These issues include state oversight of the community school program; sponsor and governing board level monitoring of community school operations; state technical assistance and training; and management company influence on community school operation.

## **Findings and Recommendations**

### **A. State Roles and Responsibilities**

ODE has several statutory and technical assistance functions for all public schools. Although community schools are public schools, ODE has not taken a leadership role in the Community School Program and has responded to programmatic flaws in a reactionary manner. As a sponsor, ODE has not adequately planned for the development of the Community School Program or developed standard policies and procedures for contracting, funding, monitoring or evaluating community schools. ODE has provided little monitoring or guidance to the State-sponsored community schools or to other community school sponsors in the State through technical assistance. ODE does not have a system in place to formally evaluate the community schools it sponsors or to oversee statutorily required areas such as funding and special education for non-State sponsored community schools.

Ohio law does not explicitly define the role of sponsoring organizations or indicate that the State has a responsibility for oversight of sponsors or community schools not sponsored by OSBE (see **community school law** section). According to ORC § 3314.11, OSO is responsible for providing technical support and services to facilitate the management of all community schools, sponsors and developers. ODE has determined OSO’s responsibility is to provide monitoring and technical assistance to State-sponsored community schools. ODE assumes the other sponsors are responsible for ensuring community schools are complying with the terms and conditions of the contract, but does not oversee other sponsors to ensure they are appropriately monitoring their community schools.

Local political forces and individual perspectives on charter schools are important factors in determining the approach states and sponsors will take in overseeing charter schools. For example, Massachusetts’ law does not clearly define how the state should hold charter schools accountable for their performance, but Massachusetts has developed a model charter school accountability system. Charter school programs like those in Massachusetts and Chicago are viewed as an asset to the educational system and a means to improve educational options for families through high standards and greater performance accountability.

Sponsors differ in their abilities to monitor and oversee the day to day operations of community schools. According to a U.S. Department of Education study, no government agencies were prepared to oversee charter schools when the movement first started. Lacking the expertise and resources to monitor and evaluate charter schools, most sponsors focus on compliance, financial solvency and the lack of negative publicity more than academic performance. Some sponsors, like the Massachusetts State Charter School Office and the Chicago Public Schools Charter School Office, are very involved and have frequent contact, both formal and informal with their individual charter schools. However, most sponsors are more reactive and only get involved with a charter school when complaints or problems arise.

Charter school operators are aware that the sponsor is not likely to initiate any contact with the school. This is especially true when sponsors are responsible for many schools but have little staff to perform oversight duties. Without a central entity responsible for coordinating oversight of sponsors or community schools, the State cannot ensure that all community schools are meeting high educational standards or maintaining financial stability. Additionally, the U.S. Department of Education holds state departments of education responsible for ensuring that community schools receiving Federal funds comply with Federal laws. Consequently, ODE must ensure that community schools are in compliance with Federal civil rights laws. However, ODE is not required to fulfill the role as statewide oversight body where community schools are concerned.

In Minnesota, charter school laws include provisions for state oversight of sponsors and charter schools. In order to sponsor a charter school in Minnesota, a prospective sponsor must file an affidavit with the Department of Children, Families and Learning (DCFL). The affidavit for sponsorship clearly states the sponsor's responsibilities and requires the sponsor to provide assurances that all legal requirements will be met. Additionally, the sponsor is required to monitor the charter school at least annually and report the results to DCFL. By clearly defining the sponsor's responsibilities and requiring sponsors to apply for the authority to sponsor charter schools, the DCFL is better able to oversee charter school sponsors (see also **sponsor's roles and responsibilities** subsection).

Additionally, in states like North Carolina, the State Board of Education has the right of final approval on contracts between a sponsor and charter school. States may also oversee sponsors and charter schools through reporting mechanisms outlined in law or through departmental policies. State departments of education represent a key reporting agency in some states' charter laws. According to a U.S. Department of Education report on the state of charter schools, in every state except California, at least two-thirds of schools had made a report or planned to make a report to the State Department of Education.

In contrast, Ohio law does not require non-State sponsored community schools to report to ODE on contractually-defined performance indicators. However, community school governing authorities are required to submit annual reports to the sponsor, parents of enrolled students and the Legislative Office of Education Oversight (LOEO). LOEO is charged with the responsibility for creating a composite annual report on community schools. However, this report does not contain individual

school performance information and LOEO is not required to submit the composite report to ODE. In addition, LOEO found that many community schools are not reporting their progress on contractual performance indicators. This lack of adequate reporting by community schools is also evidence of limited monitoring by the sponsors. The sponsor is responsible for ensuring its community schools are meeting the legal requirements for reporting performance information.

Similar to traditional public schools, all community schools are required to report financial and academic information to ODE through the Department's Education Management Information System (EMIS). For purposes of accountability, ODE's Center for School Finance and Accountability incorporates this information into community school reports regardless of sponsor. However, current statutes do not require reporting of contractually-defined performance indicators or provide requirements for accountability of the sponsoring authority. Traditional public school districts are held accountable for the performance of schools in their districts through the School District Report Card. However, if a school district converts a building to a community school or sponsors a start-up community school, the district is not held accountable for the school's performance. Each community school is treated as its own school district and ODE issues an individual report card for each community school after two years of operation. Under current law, a school district could improve its own report card by converting a low-performing school to a community school and removing the school's scores from the district's report card. Furthermore, the community school report cards do not provide ODE with information regarding the community school's progress on areas of performance identified in the contract.

Nationally, many sponsors have found it difficult to match testing programs and performance indicators to charter school goals and student needs. However, some states have made progress in establishing accountability programs to measure student progress and hold charter schools accountable. North Carolina requires its charter schools to comply with the State's Educational Accountability Program in which the State sets specific goals for all traditional and charter schools. Charter schools may propose an alternate accountability model for approval by the State Board of Education. North Carolina public schools, including charter schools, receive incentive money for meeting or exceeding their performance goals. Likewise, Minnesota's DCFL developed a charter school accountability framework to assist charter schools and sponsors in developing accountability and measurement systems reflective of a school's particular goals. The framework includes a set of indicators used to categorize all public schools and is posted on the department's website. The DCFL further requires that each charter school identify two academic and two non-academic goals each year. Minnesota, like other states, has determined that the information provided by State proficiency tests provides useful but limited information for the evaluation of charter school performance. For this reason, several states have adopted a pre/post test approach using nationally norm-referenced tests. This approach allows community schools to demonstrate academic growth over the course of a school year and better underscores the academic gains of at-risk children who may enter the charter school working below grade-level.

**Recommendations 29-31:**

- 29.** As described in ODE’s Management Plan for the Administration of Ohio’s Community Schools (management plan) which is being drafted in conjunction with the Auditor of State’s Office, ODE should reorganize the Office of School Options and provide OSO with a high level of responsibility for approving and monitoring sponsors. OSO should also develop policies for proposal to the legislature and rules for approval by OSBE. Finally, OSO should serve as a leader in promoting the community school program in Ohio. If ODE becomes the authorizer of sponsors, all state-sponsored schools should either negotiate a new charter with a recognized sponsor or be assigned a sponsor by ODE.

Based on proposed legislative changes recommended in the community school law section, OSBE should advocate the development of a statutory system of accountability for sponsors of community schools. ODE should require prospective sponsors to execute a contract with ODE for consideration as a sponsor. The contract should clearly outline the sponsor’s responsibilities and require the sponsor to provide assurances that all legal requirements will be met.

Community schools should report annually to their sponsors. Sponsors should annually provide a report on the performance of community schools under their supervision to OSO. OSO should review annual sponsor reports and produce both Sponsor Report Cards and an aggregate report for use by the General Assembly. By creating a system of accountability for community schools, sponsors and ODE, the State can better ensure that all schools are meeting high educational standards and maintaining financial stability.

- 30.** If ODE becomes the authorizer of sponsors, ODE should require sponsors to provide information about their financial position, the percentage of community school revenues they will charge to community schools for administrative costs, and their plans to remain financially viable in the event of school failure. This should also be incorporated as a criterion for approval as a sponsor and set forth in statute. Any sponsoring agency should be financially sound to minimize the potential conflict of interest between monitoring a community school and receiving revenue for sponsorship. As a component of new legislation describing the role of sponsors, the percentage charged for administrative expenses should be limited to a reasonable amount and should be limited to a reimbursement for services provided.
- 31.** If ODE becomes the authorizer of sponsors, it should set minimum standards for required academic and non-academic performance measures and allow sponsors and community schools the flexibility to choose from a variety of performance measurement methods. Sponsors should continue to have the discretion to define performance thresholds in the contract with the community school. ODE should also require community schools and sponsors to report on progress in achieving contractually-

**defined performance indicators. By establishing minimum standards and requiring community schools and sponsors to report on these standards, ODE can ensure that all community schools are developing appropriate measures of performance while still allowing the flexibility to account for measurement of innovative educational programs.**

## **B. OSO State Level Role and Function**

OSO is not fulfilling its role as prescribed by law. OSO was established by law to provide technical support to all community schools, sponsors and developers and to provide services that facilitate the management of the community school program. OSO is not identified as the sponsor or contract monitor in ORC. However, OSO has taken over the role of sponsor and contract monitor as delegated to the office by the State Board of Education.

OSO consultants have historically been housed centrally in ODE's Columbus offices. Based on discussions with community school officials, a regional approach to providing technical support may be the most effective. In the Spring semester of 2001, OSO entered into an agreement with the Trumbull County Educational Service Center (TCESC) to house two OSO consultants at the TCESC facility. The Trumbull County consultants provide technical assistance and monitor community schools in Youngstown, Akron, and Cleveland. The Trumbull County consultants meet face-to-face with the community schools and may drop-in on the schools at the school's request or as a component of annual evaluation follow-up. This set up allows the consultants to better assess the community school's needs and provide the necessary technical assistance. Community schools' representatives reported an increased level of partnership with the regional consultants and saw this as an improvement from the centralized service provided by OSO. Similarly, Central Michigan University, a chartering entity in Michigan, is considering moving toward a regional structure with specialized staff in several locations. A move toward regional offices reflects an attempt to provide schools with a supportive operating environment.

According to ODE job descriptions, the OSO consultants must have a working knowledge of budgeting, management, workforce planning, human relations, operational policy and regulations, and school law. OSO consultants review contract applications, conduct site visits, apply for Federal grants and provide technical assistance for State-sponsored community schools. The six current OSO consultants state that they are understaffed to handle the current workload.

In North Carolina, consultants are located centrally but work closely with the sponsors. North Carolina consultants have masters degrees or higher, school experience or prior experience with the Department of Public Instruction, which is the department that houses the community schools division. Each consultant oversees approximately 30 schools and is responsible for providing technical assistance or finding appropriate technical assistance for the schools. In addition to providing technical assistance, the consultants have monitoring and reporting duties that require on-site visits during which strengths and weaknesses are identified.

In California, the consultants must pass the civil service examination for Department of Education (DOE) classification. Along with the examination, the staff must have teachers' credentials or have

earned a Masters degree and have experience in program administration. Currently, California has consultants located centrally, however, due to the size of the state, the consultants are going to be located regionally in the future. The consultants provide technical assistance while the monitoring and oversight role is the responsibility of the local sponsors. The consultants act as advisors to the sponsors, should the sponsors need help carrying out their responsibilities in monitoring schools.

In Texas, the staff all have bachelor's degrees and some have advanced degrees. Staff have experience in data collection, education, and business. Texas has consultants stationed centrally, however, training is coordinated by the consultants and done regionally. The consultants provide the following services to all charter schools:

- Handle the application process;
- Provide assistance to phone-in requests;
- Perform site visits to provide technical assistance and address complaints;
- Apply for Federal start-up grants;
- Address complaints on non-compliance;
- Handle the charter amendment process;
- Provide recommendations to charter school administrators;
- Handle the charter renewal process; and
- Keep all contracts and complete annual reports.

Arizona houses 20 percent of all charter schools in the nation. The manager of the Charter School Division is the former director of a private school and has experience in communication and organization. The consultants are located centrally and their role is to help sponsors upon request, allowing the sponsor to oversee the charter schools. The role of the consultant is to collect data for the sponsors who are responsible for evaluating the charter schools performance. The state office maintains a database of charter school data including addresses and grades of students.

In Minnesota, the consultants themselves are sponsors of seven schools. The Minnesota consultant has a doctorate in educational development, policy and analysis. The department looks for people with a working knowledge of schools, preferably charter schools or choice schools, as well as the ability to present and develop programs and provide technical assistance. The role of the consultant is to assess the charter schools' compliance with the contract for purposes of contract renewals.

In Michigan the state charter school office is responsible for the following tasks:

- Categorizing and filing documents;
- Answering phones; and
- Applying for Federal charter school grants.

The Michigan office representative stated that it is understaffed and is unable to provide the assistance that the charter schools would like to have.

Based on interviews with Ohio community school representatives, OSO is not providing the level of services necessary to adequately oversee or support the current number of community schools. Similar to charter schools nationally, State-sponsored community schools recognized the need for the following services from ODE:

- In-service teacher training;
- Invitations to district staff meetings and workshops;
- Mail courier service;
- Involvement in district extra-curricular activities;
- Grant notification and writing assistance;
- Transportation of students at levels equal to categorical funding; and
- Copies of various forms used by the school district.

If ODE becomes the authorizer of sponsors, all state-sponsored schools will either negotiate new charters with appropriate sponsors or be assigned to a recognized sponsor in their region. The U.S. Department of Education found sponsors generally are understaffed to effectively perform the monitoring and oversight duties necessary to enhance the success of charter schools (see also **sponsor roles and responsibilities** subsection).

### **Recommendations 32-33:**

- 32. As recommended in the community school law section, ODE should reorganize the structure of Ohio’s community school program and reallocate job duties within the Department. OSO should be responsible for monitoring sponsors and providing technical assistance to sponsors, developers and community school operators. ODE should focus oversight activities on community school sponsors, but should continue to perform full-time equivalent (FTE) audits and individual educational plan (IEP) verification as a component of its oversight activities (see community school funding section). OSO should provide technical assistance to community schools through consultants stationed in regional offices on a part-time to full-time basis. This proposal could be accomplished without additional positions. Sponsors should be responsible for providing the day-to-day supervision and monitoring of their community schools.**

**By focusing its efforts on a smaller number of sponsors, ODE will be able to provide an enhanced level of service and better refine its policies and technical assistance activities. If no changes are made in the structure of the community school program, ODE should ensure that OSO provides technical assistance to sponsors, developers and community schools as prescribed by law and perform the sponsor’s roles and responsibilities as outlined in recommendations 2 and 34. Additionally, OSF coordinators should continue to perform FTE audits and verification of IEPs as discussed in the community school funding section.**

- 33. Sponsors should be located, or have representatives within, the same geographic area as the community schools they sponsor. By being more easily accessible to community schools, a sponsor can provide more frequent face-to-face contact and more closely monitor its community schools. Frequent monitoring and technical support is especially important for new community schools to increase their chance of success (see also sponsor roles and responsibilities and technical assistance subsections).**

### C. Sponsor Roles and Responsibilities

Charter schools' relationships with their sponsors are defined in part by law and also by ongoing state and local debates on school innovation. ORC § 3314.02(C)(1) establishes which Ohio entities are permitted to sponsor community schools. However, Ohio law does not explicitly define the role of the sponsor. Furthermore, ODE has not developed policies regarding the roles and responsibilities of community school sponsors to help guide sponsors in authorizing community schools. As shown in **Table 2-1** in the **community school law** section, ORC provides the following general responsibilities for sponsors:

- Evaluate the school by performance standards stated in the contract;
- Require the community school governing authority to submit an annual report of its activities and progress in meeting its financial and performance standards;
- Require the community school governing authority to submit a comprehensive school plan; and
- Terminate or non-renew a contract under certain conditions (see **contract renewal** subsection).

The law does not address monitoring or technical assistance tasks and ODE has not further clarified the roles of the sponsor in these areas.

According to a U.S. Department of Education study, charter school sponsors fall into one of the following categories:

- Ambivalent about approving charters, and conduct only minimal oversight;
- Reluctant to approve charters, yet conduct aggressive compliance-based oversight;
- Willing to approve charters, and conduct balanced performance and compliance-oriented oversight; or
- Enthusiastic about approving charters, yet conduct minimal oversight.

Based on this description, ODE appears to fall into the first category. OSBE approves new community schools each year, but ODE provides minimal monitoring and oversight of State-sponsored community schools. Monitoring and oversight activities performed by ODE tend to be compliance-based and do not focus on performance (see **ongoing site visits** subsection). Similarly, the U.S. Department of Education found some state departments of education generally leave state-sponsored charter schools alone unless the schools run into financial trouble or become controversial.

The study found sponsors that are committed to charter schools and determined to promote quality try to minimize charter school problems and failures. These sponsors screen applicants well, make sure charter school developers prepare good instructional plans, and provide resources for financial and management technical support. This type of sponsor realizes that new charter school developers need help and provides assistance to meet the needs. Charter schools' sponsorship in Washington, D.C. exemplifies the need for sponsors to have greater involvement with charter schools at each step in the process. The DC school board has not closely monitored the charter school it sponsors and has experienced controversial problems with its schools. In contrast, the DC Public Charter School Board has experienced greater success and less controversy with its charter schools by being more involved with its charter schools. As a sponsor, the DC Public Charter School Board carefully reviews charter school applications, provides access to financial, managerial and educational information and closely monitors operational charter schools. Additionally, studies have found authorizers that sponsor multiple schools are more likely to have written procedures for the following:

- Granting the charter;
- Revoking the charter; and
- Imposing sanctions.

Similar to Ohio, the role of sponsors in other states is not well defined in law (see **community school law** section). However, states like Minnesota have developed policies that specifically define the sponsors role. Minnesota established the following responsibilities for charter school sponsors:

- File an affidavit with the Department of Children, Families and Learning (DCFL) stating its intent to authorize a charter school;
- Negotiate a written contract with the charter school board of directors;
- Oversee the charter school compliance with the contract;
- Review the performance of the charter schools periodically and report the results to the DCFL;
- Monitor and evaluate the fiscal and student performance of the school and assess a fee for this service;
- Disseminate information to the public regarding how to form and operate a charter school; and
- Terminate or non-renew a contract under certain conditions.

With the exception of six states, charter school sponsors review, negotiate, oversee charter terms and monitor student performance. The six states that do not require sponsors to perform all these duties only require the sponsors to review, negotiate, and oversee the terms of the charter while the state board or other state body reviews and monitors the charter schools. Although not statutorily required, most sponsors monitor key performance areas. **Table 3-1** shows the areas voluntarily monitored by charter school sponsors according to a national study.

**Table 3-1: Areas Monitored By Charter School Sponsors<sup>1</sup>**

	All Schools	Some Schools	No Schools
<b>Instructional practices</b>	53.0%	13.0%	34.0%
<b>Financial record keeping</b>	91.0%	2.0%	6.0%
<b>Compliance with Federal or state regulations</b>	89.0%	4.0%	6.0%
<b>Student achievement</b>	96.0%	2.0%	2.0%
<b>Other student performance indicators, such as attendance rates</b>	68.0%	13.0%	19.0%
<b>Diversity of student body</b>	58.0%	7.0%	36.0%
<b>Governance/decision-making</b>	60.0%	13.0%	28.0%
<b>Parent satisfaction</b>	65.0%	11.0%	24.0%
<b>School waiting list</b>	55.0%	7.0%	39.0%
<b>Enrollment numbers</b>	79.0%	2.0%	19.0%
<b>Staff or student turnover rates</b>	56.0%	7.0%	38.0%

**Source:** U.S. Department of Education Evaluation of the Public Charter Schools Program: Year One Evaluation Report 2000

<sup>1</sup> Percentages may not total to 100.0 percent due to inconsistent non-response rate.

As shown in **Table 3-1**, sponsors reported focusing on the areas of student achievement, financial record-keeping and regulatory compliance in their monitoring activities. Some chartering agencies reported monitoring the following areas in addition to those shown in **Table 3-1**:

- Delivery of special education services;
- Test administration;
- Maintenance of facilities;
- Insurance coverage;
- Health and safety;
- Employee rights and qualifications;
- Adhering to orientation and mission of the charter school;
- Student discipline; and
- Meeting curriculum standards.

Sponsors surveyed by the U.S. Department of Education indicated in the future, they would emphasize clarification of expectations and increased monitoring of charter school operations and performance outcomes. Sponsors indicated a need for a stronger emphasis on performance standards for better measurement of progress and to enhance oversight activities.

Nationally, many charter school sponsors lack funds and resources to adequately monitor charter schools. As a result, these sponsors focus their efforts on approving new schools and reacting to the serious problems that develop. Similar to other states, Ohio allows sponsors to charge community schools a fee for the provision of certain services. **Table 3-2** shows the statutory provisions for administrative fees for Ohio and the Charter School Law states.

**Table 3-2: Statutory Administrative Fee Provisions for Sponsors**

State	Administrative Fees
Ohio	Sponsor may charge community school a fee as set forth in the contract.
Florida	Sponsor charge a fee of 5% total revenue to the charter schools.
Michigan	Sponsors charge a fee not to exceed 3% of the total school aid received during the school year.
Minnesota	Sponsor may annually assess the school up to \$10 per student up to a maximum of \$3500.

**Source:** Ohio and peer state charter school laws

In Ohio, LCESC charges its community schools a 2 percent administrative fee based on the total amount of State Foundation support received, although some LCESC contracts authorize up to a maximum of 4 percent in administrative fees. In addition to ongoing monitoring and technical assistance, the treasurer of the LCESC serves as the chief financial officer for the school through its second complete fiscal year of operation. The board of the school may choose to have the LCESC treasurer continue to serve as the chief financial officer, at their option. Further, the treasurer is responsible for maintaining all financial records for the school.

**Table 3-2** shows that Florida, Michigan and Minnesota also allow sponsors to charge an administrative fee for the services they provide to charter schools. In Florida, school districts manage the charter contract along with collecting and reporting data for the state. The school districts receive 5 percent of the FTE funding from charter schools to cover these activities. These states have placed limits on the amount that a sponsor may charge. In contrast, Ohio does not limit the amount of the fee. Sponsors should be compensated for the services they provide to community schools. However, community schools receive limited funding and the State must ensure that sponsors are not overcharging community schools for these services.

#### **Recommendations 34-35:**

**34. ODE should recommend that the General Assembly consider clearly defining the roles and responsibilities of community school sponsors in ORC. At a minimum, the responsibilities of community school sponsors should include the following:**

- **Negotiate a contract with the community school governing authority that meets the minimum requirements outlined in ORC;**
- **Monitor community school compliance with all legal requirements and terms**

- **of the contract, including legal and educational requirements related to facilities;**
- **Monitor and evaluate fiscal, organizational and academic performance at least annually for established schools and more frequently for schools in their first charter term;**
- **Report results of evaluation of community school performance to ODE and parents annually;**
- **Provide technical assistance to community schools; and**
- **Renew or terminate contract based on performance of community school.**

**By clarifying the sponsors' roles and responsibilities, ODE can better ensure sponsors are aware of their duties in monitoring community school contracts and can hold sponsors accountable for their performance of these duties. Sponsors should provide community schools with clearly defined performance expectations and increase monitoring of community school operations and performance outcomes. Other Charter Law States, like Minnesota and Arizona, have implemented similar measures to enhance their charter school programs.**

- 35. ODE should monitor the administrative fees charged by sponsors and determine an appropriate maximum fee based on the amounts charged by LCESC and other states. ODE should recommend to the General Assembly that the ORC be changed to reflect a cap on administrative fees. By setting an appropriate cap, ODE can help protect community schools from being overcharged while allowing sponsors to receive compensation for their services.**

## **D. Contract Process**

The charter or contract establishes the relationship between the community school governing board and the sponsor. ORC § 3314 identifies the sponsors and establishes minimum standards for the contract, but does not define the process for developing and evaluating the contract. The development of the contract is important because the contract identifies the services, goals and expectations that will be fulfilled by the community school and the sponsor. Many community school developers require assistance in developing the contract and defining the specific goals and performance measures for their schools. Sponsors often provide technical assistance and feedback throughout the contract process to assist schools in identifying the components of their programs. Sponsors also establish timelines for various steps in the contract process. It is important that timelines allow ample time for contract review and that approval dates give schools adequate time to implement start-up activities. Each Ohio sponsor has developed its own procedures for the development and approval of community school contracts.

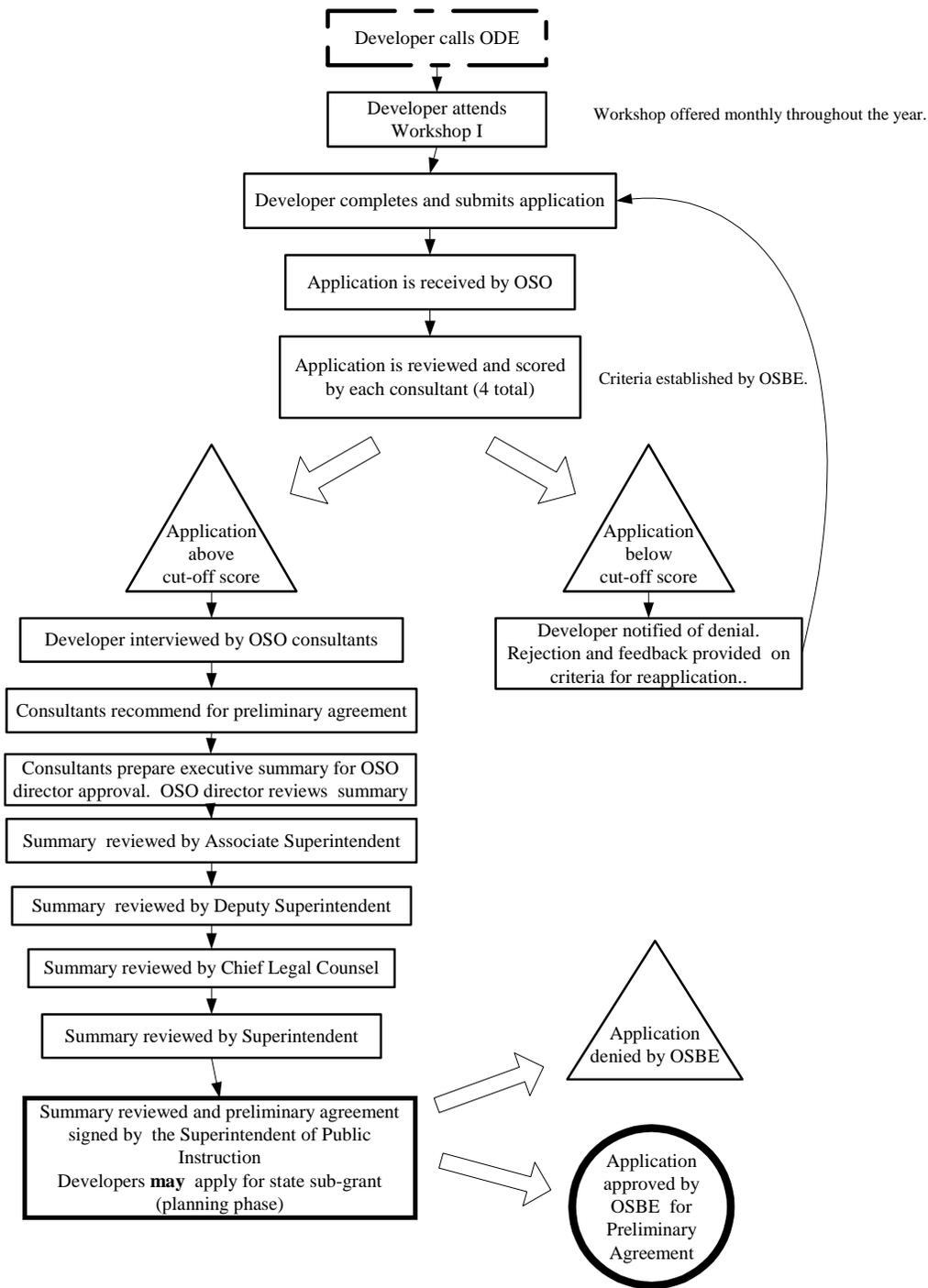
Nationally, most sponsors received their first charter school applications before they had created specific contract review and selection processes. Generally, sponsors created ad hoc processes for the initial applications and then refined contract processes through trial and error. Like community school developers in Ohio, charter applicants in other states have experienced confusion over the

contract approval process. Changing requirements, lack of clear documentation and staff turnover contribute to this lack of clarity.

OSO has developed procedures for OSBE to contract with community school developers seeking state sponsorship. OSO's application and contract guidelines lack sufficient detail to provide prospective community school developers with the information necessary to easily navigate the process. Prior to April, 2001, OSO provided developers with comprehensive instructions, detailing each stage of the process. However, OSO revised the procedures in April, 2001 and the corresponding application guide is less detailed than the previous document.

**Chart 3-1** shows the OSBE-sponsorship process from request for application through preliminary agreement.

**Chart 3-1: ODE Contract Approval Process, Application to Preliminary Agreement**

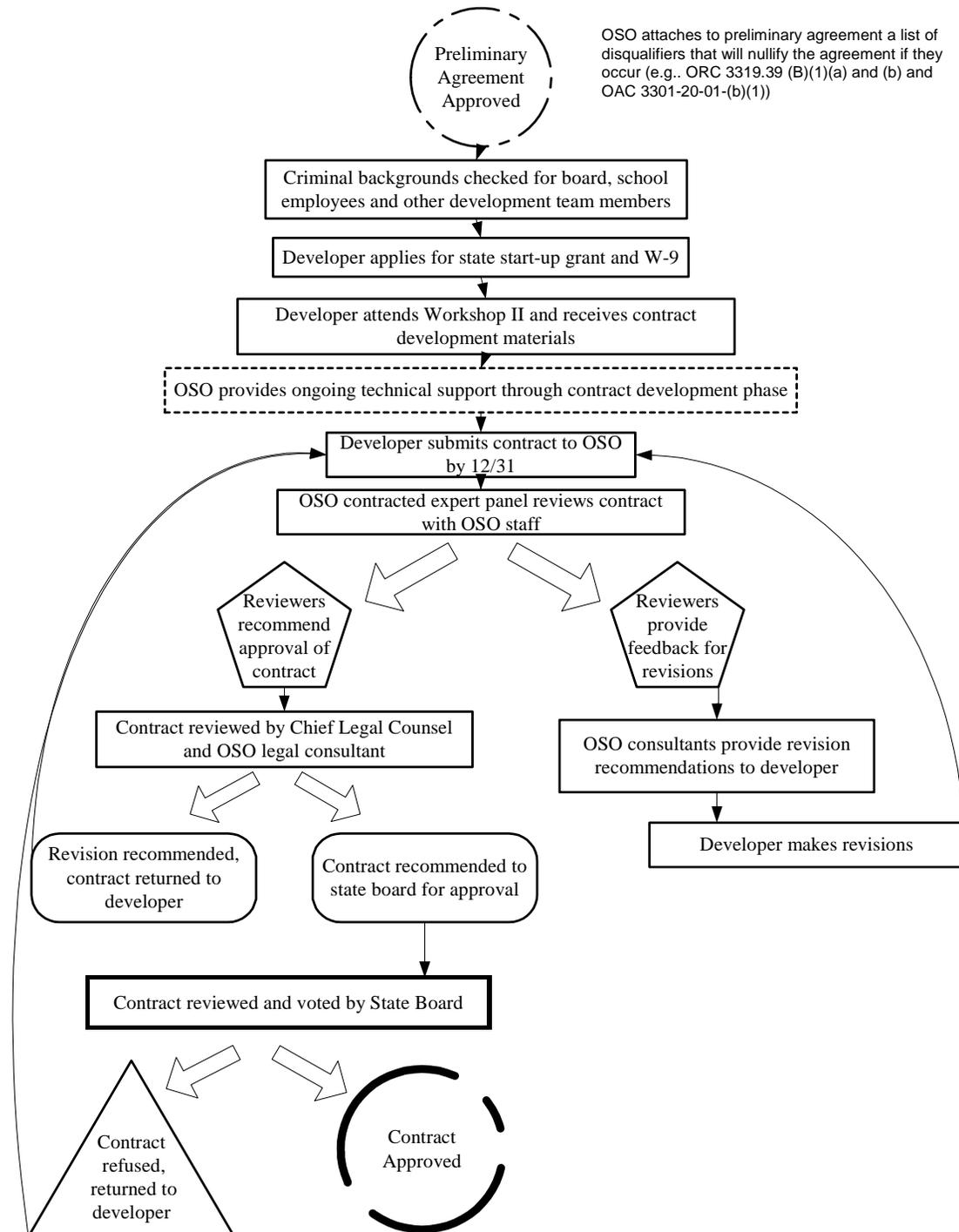


As shown in **Chart 3-1**, OSO reported holding workshops on a monthly basis for development teams interested in applying for a contract with OSBE. These workshops are intended to inform the public about community schools and to answer questions about the process. However, the OSO page on the ODE website indicates that these workshops have not been scheduled for the current school year. Information provided to AOS indicated that workshops have been scheduled for January and February 2002, however this information was not updated on the ODE website (see also **website** subsection).

OSO's process requires the developer complete and submit an application to OSO by July 31<sup>st</sup> for schools intending to open within 12 - 14 months. OSO established policies and procedures for evaluating community school developers' applications for State Board-sponsorship. As indicated in **Chart 3-1**, applications are read both individually by each consultant and by the whole OSO staff in a consensus review. Applications must have an overall consensus score of at least four to merit an interview. Developers with scores of four and above merit an interview with OSO consultants. Following the interview, a second staff consensus meeting is held to determine if the developer meets the cut-off score and should be recommended for a preliminary agreement. OSO's recommendation for a preliminary agreement is reviewed by ODE administration and submitted to OSBE for approval at the next regularly scheduled meeting. If approved by OSBE, the development team is awarded a preliminary agreement and ODE indicates its intent to work in good faith toward a contract.

After the preliminary agreement and initial start-up funds are awarded, the developer and OSO begin the contract approval process. **Chart 3-2** shows the State-sponsored process from preliminary agreement to contract approval.

**Chart 3-2: ODE Contract Approval Process, Preliminary Agreement to Contract**



Once OSO and the developer have signed a preliminary agreement, criminal background checks are performed for the community school board and the school employees. In the words of OSO consultants, the developer is “strongly encouraged” to attend the second workshop to receive contract materials. A contract is completed by the developer and submitted to OSO for review and approval. Any school intending to open in the fall of the following year should have the completed contract submitted to OSO for review by December 31<sup>st</sup>. ODE contracts with a panel of experts to review the contract proposal and make recommendations for approval in conjunction with OSO consultant’s review and recommendations. If the contract is recommended for approval by the review panel and OSO consultants, the contract is reviewed by the ODE’s Chief Legal Counsel and OSO’s legal consultant.

Once the potential contract meets the legal requirements, it is submitted to OSBE for approval. If at any time during the contracting process, the contract does not meet approval then it is sent back to the developer for revision. If approved by the State Board, a contract is signed by the community school’s governing authority and the ODE. After the community school receives a signed contract, the developer attends workshop III sponsored by OSO. The school then becomes eligible for up to \$50,000 in State and Federal implementation funds (see **community school funding** section). Schools must open between July 1st and September 30<sup>th</sup> or the school must postpone opening until the following fiscal year. OSO acknowledged that this time frame is very tight and is backing up the contract review process in an attempt to give community school developers more time to become operational.

According to OSO, the contract policies and procedures are constantly being refined. However, OSO does not have standard written procedures for revising its policies or communicating changes to community schools or to other personnel within ODE. Numerous people are involved in the contract process, but their roles within the process are not clearly defined. Also, an AOS review found incomplete and inconsistent documentation related to the contract process. Information was not readily available and OSO staff indicated the versions provided were in the process of being revised. OSO indicated that they continually revise the contract approval process in an effort to make improvements. However, the frequency of changes in procedures and lack of clear communication leads to confusion for community school developers.

In contrast to the chartering process established by OSO, LCESC has developed a comprehensive manual to assist community school developers through the process of establishing a LCESC-sponsored community school. The manual outlines the following components of the process:

- Overview and Preliminary Proposal;
- Charter Application and Supporting Documentation;
- Charter Award and Contract Negotiations; and
- Initial Operations.

In the handbook, LCESC provides an overview of the contract process. The LCESC process consists of 10 steps which are clearly detailed in the handbook provided to community school developers. LCESC’s process includes a preliminary proposal and contract application process. Additionally,

the handbook provides a list and phone numbers of personnel who help with the chartering process. ODE's report on policies and procedures regarding community school grant programs is also provided with the LCESC's handbook.

A Review Committee comprised of a broad representation of Lucas County area business persons, educators and community members reviews the applications submitted. The Review Committee recommends applications for approval to the Superintendent who makes the final decision as to whether to charter the school. Only those applications approved by the Superintendent are chartered by the LCESC. However, the Superintendent indicated that all schools approved by the Review Committee have been approved.

Contracts authorized by LCESC indicate a specific date for the new charter school to become operational. Should the applicant not meet the contracted starting date, LCESC may extend the time to become operational for up to six months. However, the extension terminates the first Monday in October. If the agreed starting date is not met, the contract becomes null and void. The applicant must then reapply for an approved charter.

Other states have also developed written policies and procedures for implementing charter schools and provide these policies to charter schools in the form of a handbook. For example, Arizona has developed a comprehensive charter school handbook to provide information and materials to assist developers in preparing applications and contracts. Like OSO and LCESC, Arizona's process includes application and contract phases. Charter school developers' applications and contracts are evaluated by the sponsors and approved by the appropriate board.

The purpose of the Arizona handbook is to help facilitate the application process and provide technical assistance in the following areas:

- Understanding the key elements of legislation establishing charter schools;
- Providing answers to frequently asked questions regarding charter schools;
- Providing information about contracts; and
- Identifying resources from the Arizona Department of Education and other agencies.

The manual is intended to be a source of reference to provide the necessary information to any party interested in chartering a school. In contrast to OSBE, Arizona provides community schools a calendar of events which lists the annual requirements for the chartered school. This list is included in the handbook and was designed to ensure that the required dates are met and for use in internal planning and control. Reference to the legal authority, the activity and the section of the manual which addresses the issue was provided in the calendar of events. Arizona's charter school handbook provides charter school developers resources for the application and contract process as well as information to provide technical assistance after a school is chartered (see also **technical assistance** subsection).

North Carolina established a website to provide information in the following categories pertaining to charter schools:

- General information;
- Dates and deadlines;
- Funding issues; and
- Accountability and evaluation/testing issues.

North Carolina encourages partnerships with local boards of education or with the Board of Trustees of one of the University of North Carolina campuses. Applicants may also apply directly to the State Board of Education.

### **Recommendations 36-37:**

- 36. ODE should develop a model handbook containing up-to-date written policies and procedures for contract approval. This handbook should provide developers with specific information to assist in preparing a community school contract. The handbook should provide the contact person in charge of the contract process, the formal dates established to provide information to the public, legal requirements and other relevant information for developing a contract. Similar to Arizona and LCESC’s handbooks, OSO should also include technical assistance information as described above to assist community schools with their continuing resource needs. LCESC and other Charter Law States have found that written policies and procedures facilitate the contract process and improve the quality of the contracts produced.**

**If the General Assembly makes the organizational changes recommended in the community school law section, ODE should require sponsors to provide a comprehensive handbook describing the contract approval process to prospective community school developers. The handbook should follow a format similar to that recommended for OSO and currently used by LCESC and other states. The handbook should be provided in electronic form on ODE’s web site and should be included as a component of OSO’s training program. Finally, OSO should ensure that the handbook and accompanying training is user friendly.**

- 37. ODE and other sponsors should revise the timelines for contract approval. At some points in the process, the timelines leave only a short duration for implementation of contract terms. Sponsors should amend the approval process to permit sufficient time for community school developers to locate and secure facilities, hire teachers, implement curriculum and notify districts-of-residence of transportation needs. In cases where the tight timeline does not permit for efficient contract execution, the sponsor should consider taking and processing applications at an earlier date.**

**ODE should take into consideration the time constraints required to bring a community school from concept and design to implementation. The ODE contract**

**approval timeline should be revised to meet the needs of community school developers and better facilitate the opening of a new community school. The timeline should be included on the ODE website to ensure maximum accessibility. Finally, ODE and OSO consultants must ensure that the timeline is rigorously followed and that all phases of contract review and approval are conducted in a timely manner.**

## E. Contract Terms and Conditions

Sponsors are responsible for negotiating the terms of the contract and ensuring the contract meets all legal requirements. Like the contract development process, the terms and conditions vary by sponsor. Some Ohio sponsors use only ORC required criteria while others include detailed performance measures.

The OSBE has used standard contract forms for each State-sponsored school. These standard contract forms have been revised by OSO each year since their inception to reflect the changes in legislation, to adhere to the policies of OSBE, and to accommodate the evolving needs of community schools. OSBE contracts follow the ORC provision that community schools comply with ORC § 3314, 117.10, 3319. OSBE community school contracts also include the following information as exhibits:

- Education Plan
- Financial Plan
  - ▶ School budget
  - ▶ Five-year annual budget
  - ▶ Spending plan
  - ▶ Enrollment projection
  - ▶ Per-pupil expenditures
- Governance and Administration Plan
- Assessment and Accountability Plan

The **Educational Plan** requires that the governing authority comply with the policies and provisions described in the educational program. Some of the provisions include: complying with the instructional program and educational philosophy; complying with the academic goals to be achieved and the measurement that will be used to determine progress toward established goals; complying with the community school's calendar and complying with ORC § 3313.61 and 3313.611. During AOS interviews, community school representatives indicated that the newest OSBE contracts are requiring a more narrow educational vision and pushing community schools to be more like traditional school models. For example, ODE continues to be reluctant to sponsor electronic schools or to develop policies and procedures to support the development of these innovative programs.

The **Financial Plan** requires the community school to maintain financial records in the same manner as traditional school districts; comply with policies and procedures with regard to internal financial controls; comply with the requirements and procedures for financial audits by the Auditor of State; and allow the sponsor to periodically monitor the school's operations. Each school is also required

to use a comprehensive accounting system following the Uniform School Accounting System (USAS) and to develop internal financial controls. The community school must submit financial statements using generally accepted accounting principles (GAAP) reporting standards.

The **Governance and Administration Plan** requires the community school to comply with several ORC provisions including hiring teachers who are licensed in accordance with ORC; providing health care and other benefits to employees; complying with admission standards and providing a plan to achieve racial and ethnic balance reflective of the community in which the school is established.

The school is also required to develop an **Assessment and Accountability Plan**. This plan outlines the minimum requirements that the community school intends to meet. The Assessment and Accountability Plan requires the community school assess student achievement of academic goals using the methods of measurement identified in the plan and to submit to the sponsor, the parents of all students enrolled in the school, and the Legislative Office of Education Oversight (LOEO) an annual report by September 30 of each year of the contract.

Charter School Law states and other Ohio sponsors use similar contract language and establish terms and conditions similar to the State-sponsored contracts. LCESC and Cincinnati Public Schools also include education, financial, governance and accountability plans in their contracts. **Table 3-3** compares ORC minimum contract terms to critical contract elements as identified in a U.S. Department of Education study of other Charter School Law states.

**Table 3-3: Comparison of Minimum Contract Requirements**

Contract Element	ORC	National
Finances	√	√
Curriculum	√	√
Accountability provisions	√	√
Mission and goals	√	√
Assessment	√	√
Health and safety issues	√	√
Instructional strategies	√	√
Admission procedures	√	√
School management	√	√
Governance structure	√	√
School facilities	√	√
Targeted population	√	√
Student management	√	√
Personnel policies	√	√
Special education	√	√
Language needs		√
Insurance	√	√
Parent involvement		√
Racial diversity	√	√
Transportation		√
Student recruitment	√	√
Teacher certification	√	

**Source:** U.S. Department of Education

As shown in **Table 3-3**, many of the same elements appear in the ORC community school contract requirements as those identified in other Charter School Law states. However, the level of detail and completeness of each element varies between Ohio sponsors. Without ensuring all elements are adequately addressed, sponsors cannot assure that the contract will provide an appropriate level of accountability.

In Arizona, similar terms and conditions are included in the contract but the State Board of Education reviews the applications and makes recommendations through application review subcommittees. The members of the subcommittee bring with them the following expertise:

- Architectural,
- Curriculum,
- Successful charter school operation,
- SBE Board membership, and
- City Planning and Zoning Department member

The inclusion of a broad spectrum of community members and leaders helps Arizona ensure that all contracts will represent the accountability needs of stakeholder groups. OSBE and LCESC also make use of expert panels in the review of community school contract proposals.

### **Recommendations 38-39:**

- 38. ODE should advocate that the General Assembly create specific statutes defining the criteria for selection of sponsors. As ODE has shown a bias toward “bricks and mortar” school models, an absence of specific criteria for sponsor authorization may lead to the exclusion of sponsors from the community school program for reasons other than financial or organizational stability. As Ohio’s educational rule-maker, ODE should be careful not to impose too rigid guidelines or restrictions which might defeat the entrepreneurial intent of the legislation. ODE must balance the need for standards and requirements with the flexibility needed to be creative and innovative in developing educational programs for Ohio’s students.**
- 39. OSO should consider expanding its community school accountability system to include the participation of parents, students and interested community members. Soliciting information from parents, students and interested community members may be accomplished by questionnaire or interview. Additional information acquired by the audit team from community school customers and interested parties may provide a different perspective of the community school’s program, staff and facilities. Additionally, the input from the community school customers may be reflective of the effectiveness of the community school in reaching its goals on an annual basis.**

## **F. Pre-operational Site Visits**

Pre-operational site visits are used by sponsors to ensure that certain minimum standards are met prior to the community school beginning operations. Pre-operational site visits typically focus on compliance with safety issues which are similar to the requirements any new business must meet prior to serving the public. The following section outlines the pre-operational site visit processes developed by OSO, LCESC, and other sponsors.

As a sponsor, OSO conducts pre-operational site visits at State-sponsored schools to ensure the community school has secured a facility and obtained all of the necessary permits and licenses. However, OSO may issue the Letter of Approval based on temporary certificates and not provide specific deadlines for securing the final permits. At the pre-operational site visit, OSO consultants issue the Letter of Approval to Operate based on verification of the following documentation:

- Certificate of Authority of Non-profit status;
- Certification of teaching staff;
- Bureau of Criminal Investigation (BCI) reports;
- Certificate of Occupancy;
- Liability insurance;
- Health and safety inspection;
- Fire inspection; and
- Food permit (if applicable).

Each of these items is listed in a checklist contained in the Letter of Approval to Operate. If a school has not obtained the permanent certificates, the Letter of Approval states the community school should provide documentation of the permanent or final permit to OSO within five days of receipt of the final permit. However, the Letter of Approval does not include a time frame for meeting the requirement of obtaining permanent certificates or final permits and does not provide consequences for non-compliance with this requirement. Also, OSO does not have formal written procedures for following-up with schools who have not secured final permits. Without clearly defined procedures including time frames, consequences and follow-up, OSO cannot ensure that community schools are operating within the requirements outlined by law. It is important that community schools meet these requirements to ensure the safety of the students attending these schools.

LCESC also conducts pre-operation site visits to ensure community schools have obtained the proper permits and licenses prior to opening. **Table 3-4** shows LCESC's checklist for community school start-up.

**Table 3-4: LCESC New Community School Checklist 2001-2002**

Staff Information	Student Information	Board Information	Building Information	Financial Information	Application Information
Current Roster	Roster - identify regular/special education	Roster - including address/phone	Lease/rental agreement/deed	Board approved budget	Preliminary application
BCI		BCI	Building Inspection certificate	Inventory	Final application
Teaching Certificates		Regular meeting schedule	Health Department Report	Non-profit status certificate	Contract
		Copies of meeting notices	Fire Inspection report		Service contracts
		School Calendar			
		Approved Board meeting minutes			

Source: LCESC

LCESC's New Community School Checklist is more comprehensive than OSO's pre-operational checklist and includes verification of governing board and financial information. LCESC allows schools to open based on temporary permits, but follows-up on the due date to ensure that the community school has secured the final permit. The LCESC community school manager maintains a tickler file of issues that require follow-up. The community school manager calls community schools and sends formal reminder letters regarding necessary documentation.

#### **Recommendations 40-41:**

- 40. Sponsors should ensure that community schools have met all legal and safety requirements and received the necessary permits and certificates prior to beginning operations. When community schools have received temporary permits or licenses, sponsors should require that permanent certificates be obtained within a specified period of time. Sponsors should develop formal procedures similar to LCESC's for follow-up with community schools including the use of tickler files and formal reminder letters to ensure that permanent certificates, licenses and permits are obtained. Sponsors must confirm that the minimum safety requirements are met prior to a school operating in order to ensure the safety of the community school's students and staff.**
- 41. ODE should implement final deadlines for all mandatory certification and should monitor sponsors' enforcement of the deadlines. Like LCESC, ODE should implement sanctions for sponsors that do not appropriately ensure their community schools' compliance with safety requirements. In extreme cases, ODE may need to supercede the sponsor in enforcing health and safety requirements by placing the community school on probationary status or revoking the school's charter (see community school law section).**

### **G. Ongoing Site Visits**

Ongoing site visits or inspections are a common tool used by sponsors to conduct periodic reviews of charter school operations. Site visits can be useful to both the charter school staff and the sponsor in identifying the school's strengths and weaknesses and if conducted appropriately can help to focus resources on critical issues before they become major problems.

OSO has developed a standard format for conducting semi-annual site visits of State-sponsored community schools, but does not systematically evaluate community schools' organizational, financial or academic performance. OSO consultants use a site inspection form to document the community school's compliance with contract terms and legal requirements. The community school site visit inspection form addresses the following compliance areas:

- Safety requirements;
- Administration issues;
- General Education standards;

- Special Education requirements;
- Medical and health standards;
- Accountability measures;
- Governance structure;
- School finance requirements; and
- Educational Management Information System (EMIS) compliance.

The consultant documents on the site inspection form whether or not the community school is compliant with each requirement and if documentation was provided by the school. The form does not indicate what evidence was provided or include an evaluation of the content of the documentation. For example, community schools are required to assess the areas of student performance and fiscal management. OSO verifies compliance with student performance requirements by reviewing documentation of student assessments and may indicate on the form what documentation was reviewed, but not the content of the documentation. For financial management, the OSO site inspection form lists the following areas:

- Monthly student enrollment reporting;
- Name of Area Coordinator;
- School treasurer's bond;
- State Teachers Retirement System (STRS) payments; and
- Monthly balance sheets.

OSO does not provide information about the results of student assessments or an analysis of the financial documentation on the site inspection form. Furthermore, the site inspection form does not reference any contract-specific performance indicators. According to a U.S. Department of Education study, most sponsors focus monitoring efforts on financial reports and site inspections rather than reports of academic performance. Without information on the results of student assessments, fiscal management and other contractually-defined performance indicators, OSO cannot adequately evaluate the performance of the community school. Community school performance is an important indicator for determining whether or not a community school's contract should be renewed. Additionally, performance information can be used to identify the community school's technical assistance needs. OSO can offer technical assistance in an effort to improve the community school's performance and increase the school's chances of achieving academic, financial and organizational success (see **technical assistance** subsection). Furthermore, the U.S. Department of Education found oversight activities focusing on performance are directly related to the charter school's focus on effective instruction. Conversely, compliance-based oversight weakens the charter school's focus on effective instruction.

If the appropriate documentation is not available during the site visit, the OSO consultant assigns a due date for verification. However, the form does not include a space to indicate receipt of the documentary evidence or the date received by OSO. Additionally, OSO does not have formal processes in place for follow-up on issues identified during site visits. Community schools and OSO consultants reported follow-up via phone, fax, or email to provide the necessary documentation of compliance. OSO reported following-up on issues from the previous site visit during their next site

visit. For some critical issues this follow-up may be too late. For example, if a school is suffering from severe financial problems at the time of the October site visit, the school must take immediate action to correct the problems. If OSO does not follow-up until the following May, the school's financial situation may worsen to the extent that it must close operations. Contract monitoring typically includes formal follow-up on areas of non-compliance or poor performance through corrective action plans with specific timelines. Furthermore, the contract monitor typically requires the contractor provide documentary evidence of the corrective action.

In comparison, LCESC's site visits focus on performance as well as contract compliance and contain evidence of follow-up from previous areas of concern. LCESC conducts annual site visits of the community schools it sponsors. LCESC team members evaluate the community school's compliance with contract terms based on a review of required documentation, results from staff and parent surveys, classroom observations, and interviews with the community school's stakeholders. The evaluation addresses the following core questions:

- Is the academic program a success?
- Is the school a viable organization?
- Is the school faithful to its contract?

LCESC develops an annual site visitation report that contains an overview of the results of the site visits for each community school. For each community school, LCESC identifies strengths, areas of concern and recommendations for improvement. LCESC's annual report is a narrative format that provides detailed information on the results of the community school's performance indicators as well as evidence of compliance with contract terms and requirements. The report also provides evidence of follow-up on issues from the previous year's evaluation. LCESC includes a cover letter with each community school's annual report addressing the results of the annual report. LCESC requests a meeting with a community school to address any serious breeches of contract or other areas of concern. According to LCESC, the following areas are examples of breeches of contract that would warrant a request for a meeting to develop a corrective action plan:

- Incomplete BCIs;
- Lack of evidence of Board meetings (minutes);
- Financial debt; and
- Lack of progress on academic performance indicators.

LCESC representatives stressed that this list was not conclusive and that other issues might also warrant formal corrective action.

Other states also perform on-site inspections to verify compliance and evaluate the performance of charter schools. For example, North Carolina State Department of Public Instruction charter school consultants perform annual on-site visits during which the consultants look at the strengths and weaknesses of the charter school. The consultants assess the charter schools in the following five areas:

- Academic accountability through performance in state testing;
- Financial status through the submission of audit results;
- Governance problems;
- Difficulties in implementing the Exceptional Students Program; and
- Enrollment.

The North Carolina consultants' findings are used as a method of determining what help the school needs. The consultants may provide the assistance directly or refer charter school personnel to the appropriate resources.

The Massachusetts Department of Education also conducts annual site visits to determine a charter school's progress on the objectives stated in its accountability plan. The primary purpose of the annual inspection is to verify and supplement the performance information contained in the charter school's annual report. Site visits in Massachusetts are performed by teams of experts in teaching and management. The inspection is standardized and includes classroom observations and structured interviews of school personnel, students and other stakeholders. The site visit team produces a report summarizing its findings which, along with the annual report, becomes a part of the charter school's record of performance.

#### **Recommendations 42-43:**

**42. Similar to LCESC and other states, Ohio sponsors should monitor community school organizational, financial and academic performance during site visits in addition to compliance with legal requirements and contract terms. Sponsors should use this information in combination with the community school's annual report to assess a community school's performance and technical assistance needs and provide information and training consistent with the community school's needs. Based on successful monitoring methods used by LCESC and in other states, ODE and Ohio sponsors should conduct site visits according to the following schedule:**

- **Monthly contact for year one;**
- **Semi-annually for years two through five; and**
- **Annually during subsequent contract terms.**

**Early intervention with a community school may increase the school's chances for success and enhance the educational experience for the students attending. These sponsor-oriented requirements should be included in any ORC amendments.**

**43. Sponsors should establish formal, written policies and procedures for conducting site visits. The sponsor's policies should include the following:**

- **Step-by-step instructions for conducting a site visit;**
- **Examples of appropriate documentation or evidence;**
- **Requirement for corrective action plans, time frames, and formal follow-up;**

- **Provisions for technical assistance and formal sanctions such as probationary status for community schools that do not meet performance standards; and**
- **Development of an annual site visit report for each community school. Annual site visit reports should address each community school's strengths, areas for improvement, and indicated progress from the previous site visit.**

## H. Contract Renewal

Sponsors have the authority under ORC § 3314.07 to terminate or not renew a contract with a community school for any of the following reasons:

- Failure to meet student performance requirements as stated in the contract;
- Failure to meet generally accepted standards of fiscal management;
- Violation of any provision of the contract or applicable State or Federal law; or
- Other good cause.

In order to determine if a community school has met the performance, financial and legal requirements stipulated in the contract, sponsors must monitor and evaluate community schools throughout the term of the contract.

ODE has not adopted a process to evaluate the 10 State-sponsored community schools that are now in the fourth year of their five-year contracts. OSO representatives indicated that the site inspection form is a tool for evaluating community schools for contract renewal. However, community school representatives reported that ODE had not provided them with any information on how the schools would be evaluated for contract renewal. Also, as indicated above, the site visit inspection form focuses on documentation of compliance and does not include specific performance information or assessments. During interviews with AOS staff, community school representatives expressed concern over unclear expectations and uncertainty about whether or not their contracts would be renewed. Similarly, the U.S. Department of Education reported that few sponsors provide written performance standards or establish formal renewal processes for their charter schools.

ODE contracted with SchoolWorks in FY 1999-00 to develop an evaluation protocol for contract renewal. SchoolWorks is a consulting group focusing on school accountability and evaluation and is the developer of Massachusetts' charter school evaluation process. In the spring of 2000, SchoolWorks conducted a day-long focus group with community schools to gather their input and the protocol was piloted in the summer of 2000 with one community school. As of November 2001, the *Ohio Community Schools Fourth Year Site Visit Protocol and School Portfolio and Renewal Application* was still in draft form and had not been formally adopted by OSBE.

To improve accountability in the community school program the State needs to identify best practices to be used as guidance for other schools. By identifying those contracts that have clear and measurable goals, the state will be setting a standard for all charter schools to follow. Without clear expectations and a formal system of evaluation, it will be difficult for OSBE to make informed

decisions regarding renewal of community school contracts and to ensure the adequate and appropriate education of the State's students.

ODE's draft evaluation protocol is similar to the model developed for Massachusetts' community schools and is based on the same three key questions used in the LCESC annual site visits. According to the draft protocol, the fourth-year site visit will be conducted by an external, independent team of evaluators and is designed to provide current, comprehensive information about the school's teaching, curriculum and management. The team reports the results of the site visit, focusing on the community school's strengths and areas for improvement within the three key question areas.

The fourth-year site visit is intended to supplement the OSO compliance site visits and other required forms of accountability in providing the evidence necessary to make decisions about contract renewal. Under the ORC, community schools are required to provide sponsors with an annual report including the following information:

- Results of statewide proficiency exams;
- Progress on academic goals as identified in the contract;
- Progress on performance standards included in contract; and
- Financial status of the community school.

ORC § 3314.012 also requires ODE to issue annual report cards for community schools after two years of operation. Annual report cards include financial and academic information and are similar to the report cards issued for traditional school districts. ORC-required AOS financial audits offer another form of accountability available to ODE for use in evaluation of community schools. OSO has not developed a system to consolidate this information into a formal community school evaluation. The lack of established goals and standards of performance prevents stakeholders from determining the success of the charter school. In addition to these weakness, the inadequacy of accountability can result in incomplete annual reports.

ORC § 3314.07 includes provisions for sponsors to terminate or not renew a community school contract based on failure to meet student or financial performance standards or to comply with any of the contract terms (see **community school law** section). In order to evaluate a community school for contract renewal, OSO must integrate information from compliance site visits, annual reports, local report cards, and the fourth year inspection to ensure that community schools' academic, financial and organizational performance are considered in contract renewal decisions. This information could provide ODE with valuable information on the success of the community school program as well as areas where additional technical support or program changes may be needed.

For purposes of contract renewal, LCESC conducts a fall and a spring site visit. Following the fall site visit, LCESC sends notification of any necessary corrective actions to the community school and provides the community school formal notice of LCESC's intent to not renew the contract if the community school does not implement the appropriate corrective action. This form of corrective action notification is also used by LCESC in instances of contract termination.

Like Ohio, North Carolina grants five-year contracts to charter schools which may be renewed. North Carolina has established a proactive approach for completing the renewal process in the fourth year of operation. North Carolina's renewal process is based on specific criteria, includes timelines for each step in the process, and involves all stakeholders. The North Carolina Charter Schools Renewal Report (NCCSRR) is developed for the State Board of Education and is based on a charter school self-assessment and an evaluation by the Department of Public Instruction (DPI). The DPI report contains responses from all offices within the Department that have pertinent information on the evaluation of the charter school, including the offices of Charter Schools, Financial Services, Accountability, and Exceptional Children. Contract renewal decisions are made by the State Board of Education based on the following criteria:

- Accountability Program results show growth or excellence;
- Review of financial compliance indicates no material or unresolved difficulties;
- Governance structure is viable with no significant or unresolved difficulties;
- Exceptional Children's Program is in compliance with State and Federal rules and regulations; and
- School enrollment is maintained or shows growth.

The North Carolina Board of Education grants five-year renewals if the charter school meets all five criteria. If the charter school is deficient in one area, the Board of Education may renew the charter for a three-year period. Deficiencies in two or more areas make the charter school ineligible for renewal during the fourth-year. Charter schools are required to address all areas of deficiency through an action plan. Charter schools with two or more areas of deficiency may reapply for renewal in the fifth year. All areas of deficiency must be adequately addressed in order for the school to receive a charter renewal. By conducting the renewal process during the fourth year of the charter, schools have the opportunity to address deficiencies and reapply for contract renewal in the fifth contract year.

To date, 29.0 percent of the states renewed charter schools, the majority of which were successful renewals. California, Colorado, Massachusetts, Minnesota, and Wisconsin experience the most renewal activity. The Massachusetts State Board of Education has adopted a renewal protocol developed in conjunction with SchoolWorks which consists of the following process:

- Submission of application for renewal;
- Initial review of application by Commissioner of Education and Charter School Office;
- Renewal Inspection and Report by SchoolWorks team;
- Full Review of school's record by the Commissioner and Charter School Office including:
  - ▶ Charter;
  - ▶ Accountability Plan;
  - ▶ Site Visit Reports;
  - ▶ Application for Renewal;
  - ▶ Renewal Inspection Report; and
  - ▶ Financial Records.

- Commissioner's recommendation to State Board of Education; and
- State Board of Education renewal decision.

The Massachusetts' protocol integrates all performance information to make an informed decision on whether to renew a charter school for another term.

Other states and charter school proponents have also cited the importance of defining accountability processes and criteria at the beginning of the contract. According to the Colorado League of Charter Schools, by agreeing to the steps for renewal up front, charter schools and their sponsors will have a common understanding of what will be expected each year in order to maintain accountability. The Colorado Accountability Plan, like the Massachusetts and proposed Ohio plans, is based on site visits and external evaluation by objective observers. The Colorado Accountability Plan was developed based on results of a 1998 Colorado State Department of Education study that found charter schools and their local school district sponsors did not have a clear understanding of how charter schools were supposed to be held accountable or how contract renewal would be determined. The accountability plan provides a process and criteria for charter schools and sponsors to clarify accountability expectations in the contract.

#### **Recommendations 44-46:**

- 44. As a sponsor, ODE should establish a formal system for evaluating community schools that integrates information obtained from site visits, annual reports, report cards and the Fourth Year Inspection Protocol. Similar to LCESC and other Charter School Law states, ODE should require community schools to address all areas of deficiency noted in the Fourth Year Inspection through a formal corrective action plan prior to renewing a community school's contract. OSBE should make decisions to renew a community school's contract based on all performance information obtained over the term of the initial contract in order to ensure renewal of schools that have met contract requirements and have shown progress over the term of the contract.**
- 45. As a sponsor, ODE should communicate to community schools the methodology and criteria that will be used in determining eligibility for contract renewal to schools under contract with OSBE. It is important that all parties are aware of the standards that will be used for evaluation.**
- 46. If the General Assembly makes the proposed statutory changes, ODE should develop standard guidelines for sponsors that include a formal recommended framework for evaluating community schools for contract renewal. The framework should provide for flexibility in defining performance standards that are in line with the community school's educational program.**

**Also, ODE should ensure that sponsors include the methodology and criteria for contract renewal in their contracts with community schools. Sponsors should make decisions about contract renewal based on the methodology and criteria established in**

**the contracts. By providing clear expectations in the contract, sponsors can better hold community schools accountable for their performance.**

## **I. Technical Assistance and Training**

Community School developers may be teachers, parents or other groups of concerned citizens with innovative ideas about educating children, but with little experience in operating and managing a school. Community school governing boards and administrators require technical assistance in order to adequately perform their duties, especially in the areas of financial management, special education and legal compliance. Without the appropriate support and guidance in these critical areas, community schools will have difficulty in achieving success and continuing operations.

OSO was established by law to provide technical support to all community schools, sponsors and developers and to provide services that facilitate the management of the community school program. However, OSO only provides these services to State-sponsored community schools, while other sponsors and their community schools are left to find their own resources. Nationally, charter schools do not look to their sponsors for technical assistance and some sponsors have made a conscious decision to refrain from providing technical assistance. These sponsors see a potential conflict between the role of advising schools and the job of evaluating the school's progress. These sponsors, however, ensure their charter schools access to appropriate technical assistance through referrals to nonprofit resource centers or other sources of assistance.

State-sponsored community school representatives expressed a need for more one-on-one assistance from OSO and other ODE offices. Information provided through other means of technical support, such as workshops and handbooks (see **contract process** subsection), may not provide sufficient detail to ensure an understanding of the information provided. For example, community schools report a need for more assistance in locating and applying for funding sources. The OSO website contains links for grant websites, but does not provide descriptions of each grant website to indicate what grants might be available, the time frames for applying, or who may be eligible. Additionally, community school personnel may not have experience in preparing grant applications and may require technical support to apply for this type of funding. Grant writing workshops may provide a basic overview of the process, but one-on-one assistance regarding the specific grant requirements may increase the likelihood for community school success in grant applications. Community school officials and others have identified special education and school finance as other areas in need of more one-on-one technical support.

During AOS interviews, community school representatives indicated difficulty in getting the technical assistance they need from OSO or in knowing whether to contact OSO or another office within ODE. Community school officials reported receiving conflicting information from ODE and confusion over whom to contact for assistance. Staff turnover at OSO was cited as one factor contributing to these difficulties. Additionally, a lack of communication and collaboration within ODE increases the difficulty experienced by community schools in getting consistent and complete information. Community schools need a consistent and reliable source of information to ensure they are getting the assistance they need to meet the objectives identified in their contracts. As mentioned

above, regionally-located OSO consultants have a more positive relationship with community schools and provide more frequent technical support and monitoring than OSO consultants located in Columbus.

LCESC-sponsored community schools reported a similar partnership with the LCESC staff. LCESC-sponsored community schools are predominantly located within Lucas County. This local sponsorship allows LCESC to provide more frequent face-to-face contact and to better assess the community school's needs. LCESC has monthly community school meetings for administrators on a variety of topics including funding, marketing plans, EMIS, and special education. LCESC bases these meetings on community school needs identified through annual site visits and frequent contact with community school administrators. Community schools are provided a schedule of meetings at the beginning of the school year.

Like OSO, other states have charter school consultants located centrally in the department of education offices. However, some states make use of regional training centers to provide technical support to both community schools and traditional schools. For example, Arizona uses regional training centers to disseminate information regarding department of education initiatives and to facilitate training and distribution of information. Arizona's regional training centers provide training and technical assistance for topics such as online grant applications, professional development, technology planning, curriculum integration, the student accountability information system, and special education. The regional training centers were developed by the Arizona Department of Education to serve as a national model for training and technical assistance. The regional training centers are a resource for all public schools, including charter schools.

Training modules and technical assistance will minimize barriers existent in the creation and operation of charter schools. As a means of comparing district performance in terms of populations, technical assistance should be provided to charter schools for purposes of explaining how to extract academic performance data. A study of public school academies (PSAs) in Michigan showed that charter schools have few networks through which to communicate information and are so busy performing day-to-day operations that there is little time to share ideas. The Michigan study highlights the importance of strong state-level training programs and technical assistance. OSO should work with established Ohio community school networks to increase communication and information sharing between charter schools.

#### **Recommendations 47-48:**

- 47. As required by law, OSO should provide technical support and training to all community schools, sponsors, and potential developers regardless of the sponsoring entity. ODE should consider expanding the regional location of OSO consultants in order to provide better services to its community school customers. OSO consultants should be assigned to regional offices and should conduct regular rotations through each community school and sponsor location within their region. As stated in recommendation 34, ODE could locate OSO consultants in regional offices without an increase in staffing levels.**

**OSO should provide sponsors and community schools with contact information for the consultant(s) responsible for their region. Contact information can be provided initially to community schools in the sponsor-provided handbook (see recommendation 36 in contract process subsection) and subsequently through written correspondence to the community schools. Additionally, OSO should work to build partnerships with established community school networks to increase information sharing and communication among community schools.**

- 48. OSO consultants should provide face-to-face technical support to sponsors and community schools in addition to formal training and workshops on specific topic areas, especially in the areas of funding, school finance and special education. OSO and sponsors should have regular contact with community schools to assess technical assistance needs and determine the best means for providing the assistance. LCESC has found this type of contact beneficial in monitoring and providing technical assistance to its community schools.**

## **J. Workshops**

OSO offers a series of three workshops to guide community school developers through the application, contract and school opening processes. However, the workshops are not offered on a regular basis and the schedule for workshops is not adequately publicized. **Table 3-5** outlines the topic areas for the three workshops.

**Table 3-5: OSO Community School Workshops**

Topic Area	Workshop I	Workshop II	Workshop III
<b>School Start-up</b>	<ol style="list-style-type: none"> <li>1. Education Plan</li> <li>2. Overview of Application</li> <li>3. Overview of Contract Process</li> <li>4. Application for Preliminary Agreement Instructions</li> <li>5. The Development Team Student Profile and Team's Rationale</li> <li>6. Development Timeline</li> <li>7. Developer and Resource Provider Information</li> <li>8. Application Summary &amp; Conclusion</li> </ol>		
<b>Accountability</b>		1. Accountability	<ol style="list-style-type: none"> <li>1. ODE Monitoring</li> <li>2. LOEO Role</li> </ol>
<b>Governance</b>	<ol style="list-style-type: none"> <li>1. Community School Leadership</li> <li>2. Organizational Needs</li> <li>3. School Governance and Management</li> </ol>	1. Governance	
<b>Finance and Funding</b>	<ol style="list-style-type: none"> <li>1. Finances of Planning Stage</li> <li>2. Financing Continued Operations</li> <li>3. Federal Charter Schools Grants Program</li> <li>4. OSO Grant Program</li> <li>5. Other State-Administered Federal Grants</li> </ol>	<ol style="list-style-type: none"> <li>1. Finance</li> <li>2. Federal Grants</li> <li>3. School Finance</li> </ol>	<ol style="list-style-type: none"> <li>1. Grants Management</li> <li>2. School Finance</li> <li>3. AOS Presentation</li> </ol>
<b>Curriculum</b>	1. Special Needs Services	1. Special Education	<ol style="list-style-type: none"> <li>1. Special Education</li> <li>2. Title Program</li> </ol>
<b>Human resources</b>		1. STRS	
<b>General Operations</b>	1. Location of Proposed School	1. Transportation	1. EMIS
<b>Other</b>	1. Marketing & Pre-Business Plan	1. Legal	<ol style="list-style-type: none"> <li>1. Child Nutrition</li> <li>1. Civil Rights and Section 504</li> </ol>

Source: Office of School Options

The workshops cover the main topic areas for developing a community school, but may not provide enough detail to adequately assist developers. For example, the Workshop II agenda allocated 1 hour to cover both accountability and transportation. The accountability plan is an important piece of the contract because it establishes the criteria for judging the success of the community school in meeting its objectives. Many community school officials do not have any experience in developing an accountability plan and may require more assistance than can be provided during a half hour group session. Additionally, OSO stated that Workshop II was mandatory. However, a review of workshop materials indicated that attendance is not required, but is strongly recommended by OSO. If community school developers do not get the appropriate assistance up front in developing the components of the contract, OSO as the sponsor will have difficulty in evaluating the community school's performance for contract renewal later. LCESC meets with community school developers one-on-one to provide instruction on meeting application and contract requirements. By meeting with developers one-on-one, LCESC is able to ensure that applicants understand the contract requirements and can tailor the instructions to meet the developers specific technical needs.

OSO does not have a plan for ongoing workshops throughout the contract term. After community schools are operational, they have continuing needs for technical assistance that could be met by monthly workshops on a variety of topics. As previously indicated, LCESC holds monthly meetings to address these topics in an effort to meet the technical needs of the community schools it sponsors. Other states, such as Arizona, rely on regional training centers to assist in providing workshops for charter schools' ongoing training needs (see also **technical assistance** subsection).

Also, OSO does not offer formal training or technical assistance for other community school sponsors as required by law. Like community school developers, sponsors may not have the skills or knowledge of what is needed to operate a community school. OSO was created by the General Assembly to provide technical assistance to sponsors as well as community schools. By providing ongoing technical assistance to sponsors, ODE can enhance the level of support provided by sponsors to their community schools and as a result, increase the likelihood of success for the community schools.

#### **Recommendations 49-50:**

- 49. ODE should ensure that adequate time is devoted to providing developers with the necessary technical assistance regarding the application and contract process. OSO should expand the time allotted for workshops so that each topic can be adequately addressed and should make attendance mandatory for community school developers. Similar to LCESC's process, OSO should also consider scheduling individual appointments with community school developers to provide instructions on the application and contract processes.**
- 50. ODE should develop a curriculum for community schools to address sponsors' and governing authorities' continuing technical assistance needs. ODE should offer workshops regionally on a monthly basis. ODE can better support sponsors and community schools by providing ongoing, consistent technical assistance and training.**

#### **K. Website**

OSO's web page on the ODE website provides little information regarding technical support for community schools. The community school information maintained on the ODE website is limited and information is outdated. For example, although workshops have been scheduled for 2001-02, OSO has not updated the workshop schedule on the website.

The OSO web page contains the following information:

- Contact information for consultants, interim director, and administrative staff;
- 2001 OSBE Contracts;
- Statewide community school approvals by various sponsors;
- Links to grants information web sites; and
- Community schools contact information.

The information listed on the OSO website is limited in its usefulness to developers, sponsors and community schools because it is not kept up-to-date. Also, OSO does not include other types of information, such as relevant laws, important dates, or links to community school resources, that could supplement the technical assistance provided by ODE. Web sites offer a convenient and easily accessible tool for providing information and links to other resources to a wide range of people.

Several of the states examined maintain specific web pages for charter schools as part of their department of education websites. In some states where the state department of education does not maintain charter school information on its website, sponsoring agencies and organizations have created their own web sites for charter schools. The Michigan Association of Public School Academies (MAPSA) and Central Michigan University are two examples.

Several other Charter School Law states have valuable technical assistance information on their web sites. Arizona, California, North Carolina, and Minnesota maintain information on their sites regarding state laws and applicable legislation. Texas and California have specific information on their web sites regarding charter school funding. This information is a valuable tool for administrators who are in the development process, and a beneficial reference for administrators of existing community schools. Arizona maintains a section of its web page entitled Data Collection. This section has information regarding due dates, instructions for required reports, and budget and annual financial reports.

Furthermore, Arizona and Minnesota's web sites include detailed information regarding the development of charter school proposals, budget tools, and the responsibilities of sponsoring agencies. The web sites also provide information on resources and training schedules. The MAPSA website contains a "What's New" section consisting of items of special interest, breaking news updates, a calendar of events, press releases, media highlights, pending legislation and the MAPSA newsletter. Peer states are using their web sites as an important tool in supplementing the information they provide to developers, sponsors and charter schools. Additionally, website information is easily accessible to the general public.

#### **Recommendation 51:**

- 51. OSO should enhance its web page to provide more community school information. OSO should include information on legal requirements, application and contracting processes, training schedules, funding information, important updates, and links to other resources. OSO should not use the website as the only means for communicating policy changes or important deadlines, but should develop the web page as a supplement to technical support provided through face-to-face contact, policy memoranda and formal workshops. OSO should update the web page as new information becomes available.**

## L. Use of Technology in Monitoring

In discussions with community school officials, the use of technology in the monitoring process was cited as an area of concern. Community schools are required to use USAS and EMIS in the same fashion as traditional schools. However, both programs were designed for public school districts and have limited applicability to community schools. In addition, USAS and EMIS do not have the functionality required by many community school operators to manage financial, student and teacher data. For example, community school operators identified the following examples of tasks which could not be accomplished with the current systems:

- Calculate finances on an accrual basis;
- Categorize students outside of traditional grade levels;
- Split full-time employees for multiple job assignments; and
- Integrate student and financial information to determine statistics like cost per student.

USAS and EMIS are antiquated programs developed in the 1980s. Neither program has been updated since inception, except to refine the definitions of certain fields. Most community schools use PeachTree or Quickbooks to maintain their financial data, citing simplicity of use and greater program flexibility. Community school finance officers stated that they use USAS coding to meet ODE and AOS requirements and feed data into USAS to produce the 4502 report. On numerous occasions, though, community school finance officers stated that a cash basis accounting system was not sufficient to maintain their records and management information needs. In several cases, the community school finance officers maintain information on an accrual basis and must convert financial data to cash basis to produce required reports.

EMIS use also presents problems for community schools as the fields for teachers and administrators are too narrow to show the tasks undertaken in community schools. Furthermore, community schools input data on a monthly basis but then must replicate the data by hand to submit FTE accounting for repayment by ODE. Community school officials stated on several occasions that the information they provide in FTE reports is the same data entered into EMIS. ODE's reticence to use EMIS for FTE reporting indicates an over-reliance on manual processes and requires the community schools to perform duplicate tasks on a monthly basis.

### Recommendations 52-53:

- 52. When ODE upgrades USAS and EMIS, it should consider upgrading current software to be browser interface based and accessible via a secure network. ODE should expand USAS to accommodate reporting on both a cash and an accrual basis. In all updates, ODE should consider the evolving needs of all public and community schools.**
- 53. ODE should expand the update of the automated student information system to meet the reporting needs of the traditional and community schools. Although an FTE reporting system is under development (see charter school funding section), it is not linked to EMIS. Therefore, duplicate data entry and reporting efforts are required to**

**satisfy both FTE reporting system and EMIS system requirements. ODE has issued a request for proposal for an updated EMIS system, but system development timelines have not been implemented. ODE should link the EMIS and FTE systems to reduce the duplication in data entry and reporting efforts for community school operators.**

## **M. Governing Board Roles and Responsibilities**

Each community school must have a governing authority (board) to serve as the legal authority of the school. According to a U.S. Department of Education study of charter school accountability, governing boards become the intermediaries between the sponsors and the community school operators. Governing boards assume public responsibilities while remaining independent entities. Community school boards are chosen in a manner described in the contract and members are not locally elected as with traditional school boards. Usually, the board is representative of the school's makeup and includes community leaders, parents and teachers. In most cases, members of charter school boards do not have prior experience in school governance. According to a study performed in Arizona, even board members with experience were not always involved in the charter school's day-to-day accounting and reporting processes.

Under Ohio law, management company representatives, or other individuals who represent an interest doing business with a school, may legally be appointed as governing board members of the school. This can create a conflict of interest between the profit generating motives of the management company and the fiscal responsibilities of the community school. Division of duties between the governance of the school and the day-to-day operations is important for ensuring the existence of appropriate checks and balances.

The ORC contains limited language regarding the major duties of community school boards. Ambiguity in defining the requirements of the position has, in some schools, created the potential for mismanagement of the community school and its resources. **Table 3-6** shows the applicable Ohio statutes related to community schools' governing authorities.

**Table 3-6: ORC § 3314: Primary Duties of Governing Authority (Board)**

ORC	Statute Text
3314.01	The Governing Authority may carry out any act and ensure the performance of any function that is in compliance with the Ohio Constitution, this chapter, other statutes applicable to community schools, and the contract entered into under this chapter establishing the school.
§ 3314.03	<p>The Governing Authority of the school enters into the contract with the sponsor and shall be responsible for carrying out the provisions of the contract.</p> <p>The Governing Authority must submit an annual report of its activities and progress in meeting its goals and standards and its financial status to the sponsor, the parents of all students enrolled in the school, and LOEO.</p>
§ 3314.06	The Governing Authority must adopt a policy regarding the admission of students
§ 3314.08	<p>A community school shall be considered a school district and its Governing Authority shall be considered a board of education for the purpose of applying to any state or Federal agency for grants that a school district may receive under Federal or State law or any appropriations act of the General Assembly.</p> <p>The Governing Authority may apply to any private entity for additional funds.</p>
§ 3314.10	<p>The Governing Authority may employ teachers and non-teaching employees necessary to carry out its mission and fulfill its contract.</p> <p>The Governing Authority is regarded as the "public employer" of these employees.</p>

**Source:** Ohio Revised Code §3314

The ORC does not provide specific examples of the duties and powers of the board for community schools. In other statutes, though, the ORC contains specific language related to the duties of traditional districts' boards. The newness of community schools, coupled with an emphasis on market dynamics and entrepreneurship, may be the cause of the limited language in the ORC on the duties of the board and the provision allowing management company representatives positions on the board.

Other Charter School Law states have limited language on the role of the community school governing body in their statutes. **Table 3-7** shows a selection of statutes pertaining to governing authorities in other states.

**Table 3-7: Governing Board Major Duties Comparison**

Duties	States
Carry out any act and ensure the performance of any function that is in compliance with statutes applicable to community schools and the contract establishing the school.	OH, NV
Governing Authority enters into the contract with the sponsor	OH, SC, UT
Governing Authority must submit an annual report of its activities and progress	OH, CT, NV, UT
Governing Authority must adopt a policy regarding the admission of students	OH
Governing Authority may employ teachers and non-teaching employees	OH, CT, SC
A charter school shall be administered and governed by a governing body in a manner agreed to by the charter school applicant (and, in some states) the local board of education.	CO, IL
The board of directors of a charter school shall be deemed public agents authorized by a public school district	DE, ID, MN, NV
The board of directors also shall decide matters related to the operation of the school, including budgeting, curriculum, policy and/or operating procedures.	AZ, FL, MN, NC, NH, NY, SC
The board of trustees of a charter school may acquire real property by lease, purchase, lease with purchase option, gift, or otherwise at any time prior to receiving a charter.	NH
The governing body of a charter school may solicit and accept donations, money, grants, property, loans, personal services or other assistance.	CO, IL, NV, NY, VA

**Source:** Charter School Law States' Statutes

**Note:** Seven states had no references to a separate governing authority of the charter school.

As shown in **Table 3-7**, the language in statutes describing the responsibilities of governing authorities is generally limited. The most common powers cited in law include policy and budgetary decision making, donation receipt and expenditure, and annual reporting. Only New Hampshire statutes include a lengthy description of the authorities and duties of the governing authority. NH §194-B:5 *Charter Schools; Authority and Duties of Board of Trustees* contains the following provisions describing the role of the governing authority (board of trustees):

- Exercise general supervisory control and authority over the operations of the charter school;
- Acquire real property from public or private sources by lease, by lease with an option to purchase, or by gift for use as a school facility, provided that such acquisition is consistent with established school purposes;
- Receive and disburse funds for school purposes;
- Make contracts and leases;
- Incur temporary debt in anticipation of receipt of funds;
- Solicit, accept, and manage grants or gifts;
- Have such other powers that are available to a business corporation; and
- Report to the school board at least quarterly for public information purposes only, regarding the progress of the charter school's achievement of its stated goals.

Although New Hampshire's law contains the provision of general supervisory control, as is found in ORC §3314.01 and §3314.03, without training and a full understanding of these requirements, the governing authority may not be effective in maintaining governance over the community school, especially when the school is operated by a management company. In two separate Ohio community school cases, a conflict of interest between the management company (and their representative on the board) and other board members has resulted in apparent mismanagement of public funds and, in one case, the closure of the school.

According to a U.S. Department of Education study, governing boards can play an important role in charter school accountability. However, establishing a board with the expertise and vision to distinguish its role as the internal oversight body for the school rather than an extension of management has been a challenge for charter schools. Charter schools need to clarify the roles of the board and school management and determine clear divisions of labor in order to develop an effective model of oversight and accountability. Well-defined governing boards oversee the school's long-term strategy and mission, but leave the day-to-day management to the paid staff. Furthermore, a well-functioning governing board focuses on the interests of the school and holds charter school staff accountable for its performance.

The relationship between the governing board and charter school staff impacts the success of the school. Contentious board-staff relations have plagued many new schools and, in some cases, have led to the charter schools failure. According to the U.S. Department of Education study, establishing boundaries between management and the board has been even more difficult when for-profit management companies are involved. Management companies may enter into agreements with community schools expecting to be left alone to manage the school while governing boards expect to have input on important decisions. Some schools in the study disbanded or fired the management companies because of these difficulties.

To prevent potential lapses in board governance, LCESC conducts an intensive two-day board member training. The training has improved the management capacity of most LCESC sponsored schools and has served to apprise board members of their legal responsibilities, sometimes resulting in the withdrawal of a member from his/her capacity as a board member. OSO has indicated that a more intensive governance section will be required in its contracts, but did not indicate what will be required or what would be included to inform its community school board members of their duties. As most community school board members do not have prior experience in school governance or the public sector, additional information about their duties and responsibilities must be reinforced and demonstrated through intensive training. Sponsoring agencies in Massachusetts, Chicago and Michigan also emphasize the importance of board development and require training and mentoring for inexperienced boards.

#### **Recommendations 54-55:**

- 54. ODE should support legislation to amend the ORC to prohibit members of a governing board from being involved in a business relationship with the school they govern. Ohio ethics laws should be extended to members of a community school's governing board**

**to ensure that conflicts of interest do not exist within the school's governance structure. Increasing the separation between community school board members and service providers would decrease the likelihood of conflicts of interest impacting the school's operations.**

- 55. OSO should offer intensive, regionalized training to community school board members, regardless of the sponsoring entity. If OSO does not have the resources to regionalize training, it should consider contracting with LCESC or a like entity to provide such training to board members. The training should be held on a frequent basis and should be provided at hours that are convenient to the majority of governing board members. OSO should consider using LCESC's training program as a model for a statewide board member training program. An increased effort to train community school board members and apprise them of their statutory duties would improve overall community school board control and decrease the instance of conflicts of interest.**

## **N. Management Companies' Role in Community Schools**

Management companies provide a variety of services to charter schools. In Ohio, the role of management companies ranges from establishing schools through the implementation of not-for-profit boards to supplying teachers, administrators and curriculum. The various tasks of management companies depend on the needs of the contracting charter school. These schools with limited educational experience may rely more heavily on a management company to provide needed services. In several cases in Ohio and surrounding states, select management companies drive the chartering process and establish chains of schools. The most notable of these companies are Edison and LEOLA. In a variety of circumstances, management companies are viewed as relieving the burden of administration so that the charter school can concentrate on its mission. In other instances, though, the role of the management company— the cost and utility of its services— is harshly criticized.

ODE and sponsors do not monitor community school management companies involvement in community schools because management companies are private entities. Management companies are not currently subject to the same financial scrutiny as public schools. For example, detailed financial information from any public school is available to the public, but when a community school contracts with a management company, the payment to the management company is shown in the community school's financial records, but the detailed financial information on management company expenditures is not available. Financial accountability is necessary to ensure taxpayer money is being appropriately used to educate the State's students.

Management companies provide their services on a fee-for-service basis. Management companies differ in the fees they charge for their services. In some cases, any remaining fund balance in a community school's General Fund may be included as payment to the management company. In other cases, management companies may charge up to 10 percent of all revenues received by the community school. A contractor that can make up-front investments in facilities or technology may

be attractive, if the terms of such investments are favorable and the board determines that the tradeoffs or costs of the investments are worthwhile.

During this operational review, several methods of management company compensation were identified. These included the following:

- **Surplus:** Some contracts allow the management company to retain any annual surplus as profit.
- **Percentage of revenues:** Most contracts provide the management company with a percentage of the school's revenues. Though the percentages in these contracts range from 7 percent to 99 percent, these numbers are derived in highly variable ways and thus may not be consistent between schools. In several cases, management companies have the opportunity to earn greater compensation through two mechanisms:
  - ▶ **Surplus in addition to percentage fees:** One contract allowed the management company to retain any budget surplus in addition to claiming percentage-based fees.
  - ▶ **Bonus in addition to percentage fees:** Other contracts award the management company an additional 2.5 to 3.5 percent of revenues if it meets performance targets related to student achievement, parent satisfaction, enrollment, or a third-party evaluation of the school's overall success.
- **Fees budgeted annually:** Some contracts do not specify the management company's compensation. Instead, the board and management company negotiate compensation annually through the budget process.
- **Flat fee:** Though no Ohio contracts reviewed use this device, some companies in other states charge a flat dollar amount for service.
- **Fees for specific services:** In the case of providers offering specific, rather than comprehensive services, contracts may include precise fees for particular services purchased.

Certain kinds of fee arrangements may call into question a charter school's eligibility for status as a charitable organization exempt from Federal taxation and for Federal Charter School Start-up grants. Charter boards that appear to be a funding pass-through to for-profit companies may find it difficult to obtain or maintain 501(c)(3) status or Federal Charter School Start-up grants. Charter schools entering into contracts with for-profit companies for day-to-day school management must be held by the State and the sponsor to the same standards of public accountability and requirements that apply to all public charter schools, including State student performance standards and assessments that apply to all public schools. The charter school must supervise the administration of the Federal Charter School Start-up grant and is directly responsible for ensuring that grant funds are used in accordance with statutory and regulatory requirements.

An option to the employment of a management company includes the use of non-profit charter school support organizations. A number of state and sub-state charter support organizations are emerging throughout the country. Some of these organizations were initially established to help build public awareness and legislative support for passing a charter school law. Once laws are passed, these groups tend to focus their attention on recruiting and assisting charter applicants and providing charter operators ongoing technical assistance and other forms of support. The Charter Friends

Organization, for example, assists charters with a variety of issues and needs, including school planning, governance, financing curriculum, assessment and accountability, facilities and other critical aspects of starting and running high quality schools.

Most support organizations are privately funded non-profit organizations, but they sometimes charge fees to help cover the cost of their operations. They attract fiscal and administrative support from foundations, businesses, think tanks, academic institutions and individuals. Some have a membership base of schools in their states. They are most often organized at a state level, but sometimes have a more narrow geographic focus within a state. In states where support organizations are prevalent and sponsors are actively involved in assisting charter schools in day-to-day operations, the influence of management companies is markedly reduced.

In Michigan, the management companies' role in charter schools is limited to that of management and administration. Other stakeholders serve the creative function providing the school with missions and curriculum. For example, one charter school was created by local school boards and later hired a management company to hire and fire teachers, hire vendors for field trip transportation and meals, and for budgeting and professional development services. In Michigan, management companies provide the following services:

- Making loans,
- Assisting with state reporting requirements,
- Assisting with financial tasks at the school,
- Establishing education design,
- Establishing education standards,
- Exempting the school from the state teacher retirement system, and
- Taking advantage of economies of scale.

Michigan recognized several advantages of affiliating with management companies, including:

- It allows the lead manager/principal to focus on curriculum development, hiring teachers; networking with other PSAs and local traditional public schools, and writing grants;
- They can raise private funding for building renovation or procurement;
- They can take advantage of economies of scale in procuring equipment and supplies; and
- Their schools achieve a higher percentage gain on science tests.

Michigan also identified the following disadvantages to being affiliated with management companies:

- The fee schools must pay for their services - on average, 10 percent - is in addition to the three percent fee paid to the authorizers and creates a financial burden;
- Schools perform less favorably in MEAP/HST Math/Reading Composite Scores; and
- Schools had a smaller percentage gain on the writing, math, and reading tests.

**Table 3-8** shows the academic progress achieved in Michigan charter schools based on the presence of a management company in school operations. The data is presented by subject area.

**Table 3-8: Michigan PSAs Ability to Achieve “Adequate Yearly Progress”**

Subject	Schools with Management Companies– Likelihood of Exceeding Comparison School Gain	Schools Without Management Companies– Likelihood of Exceeding Comparison School Gain
<b>Math</b>	3 percent less likely	5 percent more likely
<b>Science</b>	18 percent less likely	32 percent more likely
<b>Writing</b>	10 percent less likely	9 percent more likely
<b>Reading</b>	3 percent less likely	no difference from the state average in meeting standard

**Source:** Issues in Michigan’s Public School Academy Initiative Phase II

While the Michigan study attributed the differences illustrated in **Table 3-8** to management company operated schools serving more academically challenged students, this assessment was not verified. Also, because Michigan’s testing and achievement tracking process is limited, the effect of management company curriculum and academic standards could not be determined.

The Michigan study also had difficulty obtaining management company financial data. The cause for these difficulties was attributed to management companies not understanding their responsibility to report public financial information even though they are private sector companies. Some management company representatives stated that they were not under obligation to report how the funds received were expended. The Michigan Department of Education reported that increased disclosure requirements would enhance political and public support for management companies.

Other management company effects reported included schools maintaining higher parent satisfaction levels when management company are not involved. In cases where management companies are not used, though, lead managers/principals have substantially higher workloads which can lead to burn-out.

#### **Recommendations 56–58:**

- 56. ODE should increase its scrutiny of management companies’ roles in Ohio community schools and their impact on operating costs and financial stability. ODE should require sponsors whose schools use management companies to provide annual financial statements detailing the charges billed by the management company with a description of each service. Services billed should reflect the cost of services contracted by the community school plus a reasonable profit margin.**

**Also, to enhance the effective use of public education dollars, management company representatives should be excluded from community school governing boards.**

Furthermore, management companies should not be permitted to charter schools. However, if a management company or other private entity desired to become a sponsor, the company could form a charitable foundation for that purpose. (See recommendation 11.). ODE should support legislation to restrict the involvement of management companies in the establishment and governance of schools they serve. If ODE is able to increase its oversight of the role of management companies in Ohio community schools, the financial impact of service providers on instructional services may be reduced and the percentage of Ohio community school expenditures dedicated to instruction could be increased.

57. Community school governing authorities should closely examine how management company contractors propose to be paid. Management company fees should be reasonable and commensurate with the services provided. A management fee structure should not be based on total income (i.e., all fees, grants, contributions, and unusual receipts) and compensation should not be above market rate generally charged for the service provided. Charges paid should include only the cost of services contracted and received by the community school plus a reasonable profit margin.

Governing authorities should also clearly understand the investments a potential management company can provide, as well as the contractual terms and conditions. Additional fees are sometimes charged for other purchased services provided by the management company, such as facility lease rates and interest on start-up loans. These investments by management companies provide needed capital for start up schools. Management companies should be permitted to realize an adequate rate of return on their investments.

58. Sponsors should increase their participation in school operations and should counsel prospective schools on the use of management companies and service organizations. When a management company is employed, the terms and conditions of their services should be explicitly outlined and agreed to by the community school and the school's sponsor. Sponsors should ensure that all contracts with management companies adhere to the same accountability standards as other community schools, including requirements for student performance standards. An increased role in community school operations by the sponsor could help ensure that instructional programs are emphasized over administrative services.

# **Community School Funding**

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## **Background**

The Ohio Department of Education (ODE) Office of School Finance (OSF) is responsible for administering funding for the community school program. OSF uses a full-time equivalent (FTE) methodology to determine the amount of per-pupil funding for each community school. The FTE methodology is essentially a daily head count of students attending each community school. FTE payments are deducted from the district-of-residence's State Foundation payment. OSF's administration of funding to community schools has been evolving since the inception of the community school program in Ohio. Changes in methodology have resulted in financial hardships for some schools and overpayments to community schools in a large number of cases. Although OSF is responsible for funding policy and procedure, limited communication with Office of School Options (OSO) and other internal departments has made training and coordinating on funding issues difficult.

Not all community school funding disbursement responsibilities are within OSF. OSO administers three phases of the State and Federal start-up grants. Other grants, like SchoolNet, are administered through separate State programs. Some community schools have encountered problems determining the responsible ODE department for each area of funding.

In the community school political arena, funding issues are often at the forefront of the debate. Determining the source of funding— State or local level— and the appropriate funding amounts remains an area of contention. Access to State and Federal grants presents a barrier to equity in traditional public school district funding and community school funding. Inexperience in financial management impacts the credibility of community schools and creates financial instability. Several of the most salient issues in community school funding are discussed in this section. These areas include planning and start-up funding, per-pupil funding processes, FTE funding processes, community school expenditures, grants administration and financial management and oversight.

## **Findings and Recommendations**

### **A. Grant Administration for Planning and Start-up Funding**

ODE administers one planning and start-up State grant and two planning and implementation Federal sub-grants which are made available to the majority of Ohio's community schools. The Federal sub-grant program in Ohio is administered at the state level, although some Charter School Law states require charter schools to apply directly for the Federal grants. To offset grant administration costs, states may retain up to 5 percent of the annual Federal sub-grant amount. Ohio retained 5 percent of Federal grant revenues during each year of receipt of the grant. The average amount retained by Charter School Law states in FY 1999 was approximately \$130,000 with the largest portion being dedicated to salaries. Current data on amounts retained by Ohio was not available; however, overall grant awards have increased dramatically during the past two years. As a result, ODE has been able to retain additional funds for use in managing the community school program.

ODE, through the State grant and Federal sub-grants, provides relatively unencumbered seed funding to community schools during their first three years of operation. The start-up grants play an important role in a school's success. A U.S. Department of Education study found that, in FY 1995-96 and 1996-97, nearly 60 percent of charter school operators cited lack of start-up funds as the single biggest obstacle they faced when opening their schools. Start-up funds remain the number one barrier, but through the implementation of larger sub-grants, the number of operators reporting start-up funds as a barrier dropped to 39 percent by FY 1998-99. The authors of the study speculated that the decline in intensity of start-up funding related issues was related to the increased Federal grants and the implementation of several state level grant programs.

As the administrator of the State and Federal sub-grants, ODE requires community schools to submit proposals to ODE for each phase of the grant. From the implementation of the community school process to FY 2001, ODE had limited the maximum amount of funds available to each community school to a total of \$150,000. In 1998, the re-authorization of Federal Charter School legislation increased policy pressure on states to increase the number and types of authorizers, and implement state-level five year charter school reviews. States that meet this criteria are given priority in the grant approval process. Some states have revised their community school laws to increase state or school level opportunities for grant awards. Ohio's community school law currently meets Federal criteria for grant award priority.

Once a community school enters into a preliminary agreement with a sponsor (the stage prior to contract approval), the school is eligible for \$50,000 in State sub-grant monies to continue planning and implementation. Upon contract approval, the school is eligible for an additional \$100,000 in Federal sub-grant monies which are spaced over a two to three-year period. In total, each school typically receives \$150,000 in State and Federal support to spend over the three-year start-up period.

Community schools that are a part of the Lucas County Educational Service Center (LCESC) have a separate line item in the LCESC's budget to guarantee each school receives \$150,000 in planning and implementation funds. These funds are State and Federal grants and are not in addition to the aforementioned \$150,000.

According to community schools interviewed, the current funds available are not adequate for the initial outlay of starting a new school. In addition to the inadequacy of funding, the timing of funds received is not conducive to establishing a new school prior to the start of the school year. The community schools' operating costs, such as acquiring facilities and hiring teachers, begin prior to the start of the school year. For start-up funds to be useful, they must be received prior to the start of the school year. ODE records show that disbursements take place throughout the year and are not on a regular schedule. Of the 12 community school grant records examined, disbursements occurred during each quarter of the school year.

LCESC provides up-front funding for start-up schools by disbursing grant amounts from its own financial reserves. Once funds are received from ODE for the community school, LCESC is reimbursed for the start-up funds. By assisting schools in receiving start-up funding and ensuring availability of funds, LCESC facilitates new community schools' implementation processes. ODE, on the other hand, does not assist its schools with obtaining grant funds and often remits grant funds after new schools have opened for business. The untimeliness of grant fund disbursement by ODE results in strained finances for state-sponsored start-up schools.

The Federal sub-grants have few restrictions on how grantees can spend the funds. The Federal sub-grant application lists allowable activities but specifies that the list is suggestive, not comprehensive. ODE has developed more specific uses for grant funds and includes the specific spending criteria during the application phase. Planning and start-up funds are to be used for such items as preparing educational, fiscal, governance and accountability plans, informing the community about the school, acquiring educational materials and equipment, securing and renovating a facility and recruiting staff.

As a component of the Federal grant program, ODE must retain detailed records. Below is a list of items that must be maintained in community school Federal grant files.

Federal Community School Planning and Implementation Sub-grant

1. Application cover page
2. Project budget sheet
3. Budget narrative
  - a. A description of how each object or function code of the sub-grant funds will be used
  - b. How the community school will provide for continued expenses after grant ends
  - c. An assurance that applicant will cooperate with ODE and Federal Department of Education in evaluating the impact of grants

4. Program narrative
  - a. Preliminary agreement with state board OR
  - b. Preliminary agreement with Sponsor OR
  - c. Signed contract
5. Signed statement of assurances
6. W-9

All Federal grant files also must contain an expenditure report to catalog how the grant was used. ODE State start-up grants did not have similar conditions until FY 2001-02. During FY 2001-02, OSO issued a statement to certain community schools requiring the submission of expenditure records for State start-up grants. In several cases, community schools submitted expenditure reports for all three phases of the grant.

As a component of this operational review, certain State start-up grant information was requested:

- A summary of all grants approved and disbursed
- A detailed list of all recipients who had not opened schools and the amount of funds returned to the State
- A description of expenditures
- A sample of files for examination

OSO was unable to provide expenditure information for the grants and did not provide a detail of funds reimbursed to the State by recipients who had not opened schools. Several spreadsheets showing grant recipients and subsequent school openings were provided but the validity of such documents was not tested. However, direct testing of several grant files was undertaken. Using common grants management standards and OSO grant file requirements, a selection comprising approximately 10 percent (12 files of 125 total) was critiqued for completeness and accuracy. OSO's Federal grant checklist was also used to gauge the completeness of grant files. **Table 4-1** shows the results of the examination.

**Table 4-1: State Start-up Grant Records Review**

Problem	Number	Percent
Missing Budget Narrative	5	41.7%
Missing Program Narrative	7	58.3%
Missing Expenditure Data	5	41.7%
Expenditures Lack Detail	8	66.7%
Expenditure Supporting Documentation Absent	12	100.0%
Missing Grant Checklist	11	91.7%
Missing W-9	3	25.0%
Other	5	41.7%
Average # yrs paid out	2	17.9%

Source: ODE/OSO State Grant Records

As shown in **Table 4-1**, a large portion of files were missing program and budget narratives which are used to describe the intent of expenditures and justify receipt of the grant. Also, lack of expenditure detail and supporting documentation limits OSO and community schools' ability to justify expenditures and ensure that grant funds were spent on appropriate, authorized activities. Furthermore, while OSO conducted "audits" of the files, OSO audits were found to be checklists to make sure the files were complete. An "audit" was conducted on only one file in the sample. In other cases, the same budget was submitted in each of the three grant years. Also, in two files, instructions to the grant recipient were included stating that the "numbers in [final expenditure report]... should be exactly or nearly the same as the ones you submitted in your original application." These instructions defeat the purpose of the expenditure reporting process by encouraging grant recipients to gloss over line item expenditure detail.

ODE's management and administration of grants is diffused throughout the agency with no one department responsible or one set of rules and oversight criteria used. The Office of Development pursues grant funds and fosters relationships with external funding sources. Federal and State grants are then administered through five centers at ODE as follows:

- Center for School Finance and Accountability, Federal and State Grants Management; fiscal monitoring of Federal grants, but do not monitor State grants.
- Center for Curriculum and Assessment, Office of Career, Technical and Adult Education; administers Federal and State grants to meet career education needs of Ohio's youth and adults.
- Center for School Reform and Options, Office of Reform and Federal Student Programs; administers Federal funded Title programs.

- Center for the Teaching Profession; administers educator development, teacher certification, teacher recruitment, teacher retention, entry year assistance and assessment, and educator preparation.
- Center for Students, Families, and Communities, Office of Child Nutrition Services, Office of Early Childhood and Office of Exceptional Children; administers grant programs that deal with child nutrition, early childhood development and exceptional children (disabilities), respectively.

These five offices administer 33 Federal grants totaling \$834 million and 55 State General Fund line item grants totaling approximately \$5.6 billion. Each of the offices lists grant opportunities separately and may require vastly different items in grant applications. ODE has not made an effort to adopt uniform practices among the five departments.

ODE has not sufficiently fulfilled its responsibility for appropriately safeguarding Federal charter school grant funds. When approached about detailed audits of grant expenditures, OSO representatives stated that this review was a component of the community school's annual financial audit. However, according to current auditing standards, grant records of this type may not be subject to a specific audit by an external auditor. Grant fund reviews are only conducted during single audits or if the amount is material to the school's financial condition. OSO representatives, as the grant agents, are accountable for the verification of expenditures. The Legislative Office of Education Oversight (LOEO) noted in its FY 2001 report on community school implementation that most community schools had not submitted the requisite reports to ODE detailing grant expenditures. OSO notified LOEO that they would cease disbursement of funds until the appropriate reports were filed and reportedly corrected the problem by the beginning of FY 2001-02.

The Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) has a list of best practices for grants management including those developed by the American Institute for Certified Public Accountants (AICPA).

- Reporting and compliance requirements are defined and communicated.
- Procedures exist to monitor district compliance with grant terms.
- Sub-recipients are monitored sufficiently and on a timely basis to permit curtailment of any abuse before all funds are disbursed.
- Funds are disbursed to sub-grantees on the basis of approved applications.
- Failure of sub-recipients to meet financial reporting requirements are investigated on a timely basis.
- Responsibility for monitoring grant activities is properly fixed.
- Grant activity is monitored from a central location.
- Procedures exist to monitor compliance with: financial reporting requirements, use of funds and other conditions in accordance with grant terms, and timely billing of amounts due under grants.

- Grant activity is accounted for so that it can be separated from the accounting for locally-funded projects.
- There is a system to obtain grantor approval before incurring expenditures in excess of budgeted amounts or unbudgeted expenditures.
- Grant revenues and disbursements are processed under the same degree of controls applicable to the organization's other transactions.
- Requirements are included in sub-grantee agreements that the sub-grantee comply with the primary grant agreement conditions as well as grantee's standards.
- Reasonable procedures and controls exist to provide assurances of compliance with recipient eligibility requirements established by grants.
- Procedures exist to ensure that funds are spent in accordance with legal requirements and spending restrictions.
- Statistical or data reports that form the basis for grant revenue distribution are reviewed by a responsible official before allocation.
- The amounts of entitlement funds received are compared with the amount anticipated by a responsible official and unusual variances investigated.

Several states supplement the Federal grant amounts through state level grants and loans. **Table 4-2** indicates the additional amounts of start-up funding available in Ohio and other Charter School Law states.

**Table 4-2: Charter School Law States' Start-up Funding**

State	Start-up Funding
<b>Ohio</b>	\$50,000 initial planning, State grant.
<b>Arizona</b>	Up to \$100,000 initial grant from charter schools stimulus fund, then they may apply for additional grant of \$100,000. (Total of \$200,000)
<b>California</b>	Revolving loan fund that is capped at \$250,000 and allows charters to apply for loans on their own behalf with up to five years for repayment. (Total of \$250,000)
<b>Minnesota</b>	During first two years of operation eligible start-up aid and additional operation costs equal to greater of \$50,000 per charter or \$500 times charter's enrollment.

Source: The Charter School Roadmap, 9/98; The Center for Education Reform

As indicated in **Table 4-2**, a few other states offer levels of start-up support in excess of the Federal grants. Arizona has developed a stimulus fund to provide financial support to charter school applicants and charter schools for start-up costs and costs associated with renovating or remodeling existing buildings. After a charter school has applied for the initial \$100,000 during or before the first year of operation, they can apply for the additional \$100,000.

Likewise, California has instituted a revolving loan fund with the purpose of providing loans to charter schools to help meet the objectives established in the school's charter. California has established several criteria that they may consider for determination of loan approval which include the following:

- Soundness of the financial business plan of the applicant charter school;
- Availability of other sources of funding for the charter school;
- Geographic distribution of loans made from the Charter School Revolving Loan Fund;
- Impact that receipt of funds will have on the charter school's receipt of other private and public financing;
- Plans for creative uses of the funds received, such as loan guarantees or other types of credit enhancements;
- Financial needs of the charter school; and
- Stage of community school development-- priority for loans from the Charter School Revolving Loan Fund to new charter schools for start-up costs.

Allowable costs for these loans may include, but are not limited to, leasing facilities, making necessary improvements to facilities, purchasing instructional materials and equipment, and expanding programs. A charter school may apply for more than one loan but the total amount received by the school cannot exceed \$250,000. These loans are provided with a low interest rate, are disbursed four to six weeks after loan approval and must be repaid within five years. As of January 1, 2001, California has made approximately \$20 million available for charter school loans. Several other states have not created a State-level grant program, instead relying on Federal start-up grants. North Carolina and Michigan have opted not to use state money for start-up funding but instead, apply solely for Federal funding. Federal funding may be applied for and received by the individual charter school, as in the case of Arizona, or applied for and administered by the State, as in the case of Ohio.

In other cases, states have developed matching grant programs or challenge grants. Florida's Department of Education developed a \$20,000 challenge grant to supplement the Federal grant and provide training to charter school operators. The funding allows charter school operators to receive training in areas such as assessment, financial management, curriculum, personnel and administration. Governing board training is also offered through the grant. The additional funding for training assists charter school operators in building their working knowledge base during critical periods of school start-up and implementation.

As of October 29, 2001, OSO secured additional Federal grant funding to aid community schools in their start-up procedures. In addition to the State sub-grant of \$50,000, community schools are now eligible to apply for a total of \$450,000 in Federal funding over a three-year period. A prerequisite for consideration for the Federal sub-grant is a signed contract with an authorized sponsor. These funds are to be used for start-up and initial implementation activities in the same

manner as the smaller grants. According to representatives of the U.S. Department of Education, some of the additional start-up funds are directed toward supporting existing schools and researching best-practices in charter school operation. However, OSO does not plan to extend these funds to community schools formed during FYs 1998-99 through 2000-01.

Although the expanded Federal grant program was implemented in FFY 1998-99, ODE did not receive the additional funding until October of 2001. Delays in applying for the expanded Federal grant resulted in reduced start-up funding opportunities for community schools. Also, timely funding from ODE to community schools has been problematic, and several community schools have remarked that funds were not available for several weeks after approval. A review of OSO grant materials showed that some grants were not disbursed in a timely manner due to mis-communication between OSF and OSO. In other cases, community school officials received conflicting instructions on allowable expenditures and grant time lines.

#### **Recommendations 59-64:**

- 59. As ODE retains 5 percent of Federal grant funds, it should demonstrate how retained funds from the Federal grant program are used to enhance the community school program. In FFY 1998-99, ODE reported using approximately \$80,000 in retained funds for salaries and purchased services. As increased grant amounts become available, ODE should expand its use of retained funds to enhance the community school program by implementing several of the recommendations contained within this report, especially increased training and regionalized OSO consultant services.**
- 60. ODE should ensure that planning and start-up funding for community schools is disbursed to community school operators in a timely manner that adequately supports the initial outlay required to start a school. ODE should identify methods to improve the timeliness of grant distribution and decrease the grant processing time line. Disbursement time frames of 30 days after receipt of application should be established and communicated to grant applicants. OSF and OSO should increase communication between their departments to ensure grant functions are properly coordinated.**

**Initial start up grants should be available between October and January for community school developers who have received their preliminary agreements, and between March and May for developers with approved contracts. In order to ensure that start-up funds are available and can be used by approved schools, OSO may need to revise the contract approval process timeline (see community school monitoring and oversight).**

- 61. ODE should develop rules for grant oversight and conduct internal and on-site audits for State grant expenditures. These activities should be coordinated through the Office of Grants Management and Office of Internal Audit who already have such processes**

**in place. Increased oversight of State grants would increase ODE's ability to safeguard taxpayer resources. Examination of community school grant award records should be included in on-site evaluations of community schools and their sponsors.**

- 62. All grant administration should be brought under the management of the Office of Grants Management. Although certain centers may wish to remain involved in the grant award process, grants management and oversight must be centralized and conducted under a single set of rules. The current decentralized process limits ODE's ability, as an agency, to manage funding programs under its control. Furthermore, providing all schools with a single point of contact for grants administration would reduce confusion and mis-communication between the schools and ODE.**
- 63. ODE should adopt and implement best practices in grants management for all centers. The Agency should use grant management and administration best practices identified by OPPAGA and AICPA. Implementing best practices in grants management would ensure that ODE employed the most reliable and up-to-date practices in future grant administration.**
- 64. ODE should investigate the concept of establishing a low or no interest revolving loan fund to aid community schools in starting and conducting operations. These funds could be available for expenses that the State or Federal sub-grants are not intended to support or do not meet. A revolving loan fund would help community schools finance large purchases in the first years of operation, when their cash flow might not permit necessary equipment and facility purchases. To establish a revolving loan fund, the Legislature would need to appropriate funds for the program.**

## **B. On-going Grant and Capital Funding**

Access to additional capital during the first years of operation is constrained because community schools cannot issue tax-exempt bonds. According to Ohio Revised Code (ORC) §3314.08(J), a community school has the authority to borrow money for payment of actual and necessary expenses in anticipation of the funds to be received by the Ohio Department of Education pursuant to ORC §3314.08(D) (school foundation). However, these notes must mature prior to the end of the fiscal year in which the money was borrowed when financed by school foundation monies.

ORC §3314.03(A)(13) explicitly limits the length of the contract for a community school to five years. This short-term contract hinders the ability of community schools to issue bonds for long-term debt financing due to most bond issuances being longer than five years. Other states have changed their charter term laws for charter schools so they have increased access to tax-exempt bonds.

Colorado has established the Colorado Educational and Cultural Facilities Authority (CECFA) to provide affordable capital financing for colleges, universities and other post secondary institutions. In 1998, CECFA amended its statutory powers to include charter schools. Investment and banking firms market and sell bonds for CECFA, and then the funds are loaned to the charter schools. The advantages for charter schools obtaining financing through CECFA are that they provide access to private sector funds, issuances are tax-exempt, the investment and banking firms have expertise and experience in marketing tax-exempt bonds, and the interest rates are usually lower than loans through regular commercial institutions. The liability for debt from the bonds and notes issued does not remain with the state but is attributed to the charter school.

Arizona has local organizations called Industrial Development Authorities (IDA). In June 1999, Arizona amended its statutes to allow non-profit charter schools to apply for financing from IDAs. IDAs are authorized to issue tax exempt bonds for governmental entities. These bonds are sold to investors and the proceeds are loaned to the charter schools. Arizona has already had some success using the IDAs. The Maricopa County IDA issued \$27 million in bond proceeds to a pool of seven charter schools. By pooling the funds, Maricopa IDA was able to spread the issuance costs among the seven charter schools and earn a better investment-grade rating. The access to funds from issuing bonds provides another resource for charter schools to obtain additional funding.

Also, North Carolina has expanded its Educational Facilities Finance Agency to include all non-profit organizations providing K-12 public education. This agency is now able to issue bonds for charter schools and transfer the proceeds to charter schools. In Ohio, the Ohio School Facilities Commission (OSFC) has been approved to form a guaranteed loan pool for community schools. According to HB 94, OSFC had until December 2001 to adopt rules for the administration of the community school facilities guaranteed loan program, but, as of the date of report publication, the program was still under development.

Recently, the Federal sub-grant program was expanded to include grants to mature schools for the purpose of disseminating promising charter school practices. The program expansion occurred in 1998 and was in response to charter schools' continued concerns over start-up funding. ODE has not expanded its sub-grant program to include these initiatives nor has the department expanded its internal policy on the amount of Federal funding that a community school can receive.

**Recommendation 65-66:**

- 65. ODE should support the development of programs to provide additional financing for the community schools including tax exempt bonds or low interest loans, such as those found in Colorado and Arizona. ODE should also support the establishment of a community school capital authority that could make funds available for capital purchases and float general operating debt. Through the development of additional capital funding programs, Ohio community schools would have access to the additional capital needed to acquire such items as facilities or other large dollar purchases.**

**ODE should also develop training and seminars on grantsmanship to assist community school operators in obtaining private funding. Private funding is widely available for educational programs and facilities, particularly for special populations. In order to assist community school operators in obtaining additional funding for start-up and long-term operations, ODE should emphasize pursuit of private funds and provide regionalized grantsmanship training and support for community school operators.**

- 66. ODE should apply for additional Federal sub-grant funds for mature community schools to support community schools' efforts to develop, implement and share best practices. The program should be extended to mature community schools to ensure the transmittal of positive community school practices in the areas of school operations, curriculum, financial management and human resources.**

**By extending Federal sub-grant funds for these purposes, ODE could ensure the dissemination of positive business practices from successful community schools to those that have had limited success or may be in start-up or early implementation phases. The circulation of beneficial practices could also help prevent some of the financial and managerial problems that have been encountered by Ohio's community schools.**

### **C. Per-pupil Funding and Foundation Payments**

A specific State funding formula was passed by the General Assembly for use with community schools in Ohio. The formula specifies the amount of state funds that a community school receives for educating its students. The formula provides community schools an adequate base amount per-pupil to operate educational programs. The State Foundation base per-pupil amount is the largest source of monies for community schools. This is paid on a per-pupil basis and is transferred from funds attributed to the student's district-of-residence to the community school. The per-pupil amount is augmented by the cost-of-doing-business factor for the district where the community school student resides.

Ohio community schools are eligible to receive most of the State and Federal funds that traditional public school districts receive. These funding types include the following:

- **Formula Aid Funding (ORC § 3317.012):** The formula amount for FY 2001-02 funding is \$4,814 and FY 2002-03 funding is \$4,949. For periods after FY 2002-03, the per-pupil funding amounts are tentatively scheduled to be \$5,087 in FY 2003-04, and \$5,230 in FY 2004-05. The formula aid funding amount is adjusted by the cost-of-doing-business (CODB) factor which is used to adjust the foundation level upward to reflect the relative cost of doing business in the county in which the district is located. The CODB factor is calculated for each county based on labor force average weekly wage data for the county and its contiguous counties. Formula aid funding represents the largest share of State funds paid to community schools.

- **Special and Vocational Education:** The current State funding formula provides additional funding to districts to be used in educating special and vocational education students. In FY 2001-02, special education categories were expanded from three categories to six based on the handicapping condition of the student. Each category is assigned a weight, ranging from 1.2892 to 4.7342, to be used in the weighted special education calculation which is paid to the school in addition to the base cost. In some cases, special and vocational education funding represents a large component of funds received by community schools. However, undocumented classifications of some special education students by community schools have caused some community schools to be overpaid by the State.
- **Disadvantaged Pupil Impact Aid (DPIA) (ORC § 4414.08):** DPIA provides additional funding for schools that have a high percentage of students eligible for public assistance under the Ohio Works First (OWF) program. Students from economically disadvantaged environments may be more costly to educate, and DPIA is intended to offset this expense.

Although community and traditional public school districts receive similar State funds, traditional districts usually receive only about 44 percent of their funding from the State, the remainder of which is comprised of approximately 6 percent Federal funding and 50 percent local funding. The State's community school financing system has resulted in a significant difference between traditional school district and community school funding as community schools are not permitted to levy taxes. In some cases, the reduced per-pupil funding amount received by community schools creates a strong funding inequity. Community schools tend to mitigate a portion of the inequity through donations and private contributions.

A University of California, Los Angeles (UCLA) study determined that private funding played a very vital role in the success of California charter schools and that schools with higher degrees of fund raising success had clear advantages over schools with lower levels of private funding. Likewise a study of the annual reports of 10 Massachusetts charter schools determined that private funding comprised between 5 and 12 percent of total revenues. However, one school collected private funds in excess of 25 percent of total revenues. A review of six Florida charter school audits showed a similar range of private funding with the average being 3 to 5 percent of revenues. A school for at-risk children raised 17 percent of revenues from private donations. Some policy analysts have suggested that over-reliance on private funding could indicate that too few resources are dedicated to traditional education. Conversely, reliance on private funding could also indicate that public funding is insufficient to support charter schools as the sole source of funding.

In some cases, arbitrary decisions on State grant eligibility have reduced community schools' access to funding. During the first year of community school operation, community schools were deemed ineligible for SchoolNet technology grants. While these grants are competitive and do not comprise a large portion of funding for community schools, community school operators stated that ineligibility hurt their ability to put computers in the classroom. During the second year of

community school operations, SchoolNet opened the grant to community schools. However, unlike traditional public schools, community schools can use the grant only to purchase portable items, such as desktop computers, and can not use the funds for wiring or satellite links. Also, community schools applying for the grant must develop a technology plan, similar to that required of traditional public school districts. However, community schools often lack the expertise to develop a technology plan and must use consultants to develop the plan. Most of the restrictions for community schools on use of SchoolNet funds are a result of SchoolNet's management of the grant program.

During FY 1999-2000, community schools received an average of \$6,700 per-pupil in revenue. In the same period, traditional school districts in which most of the community schools are located received \$7,800 per-pupil revenues for a total difference of \$1,100 (14 percent) more than the community schools. When examined against state-wide averages on a per-pupil basis, community schools appear to be receiving operating funds comparable to traditional public school districts. Although community schools do not receive local revenues, the difference in revenues appears to be made up in donations, grants and other private funding.

Community school revenues are primarily derived from State foundation, including special education funding, and DPIA funds which comprise approximately 82.5 percent of all operating revenues. State and Federal grants comprised the next largest portion at 11.3 percent, which is predominantly start-up grants. However, start-up grants are only available to a community school during the first three years of operation. The apparent reliance on these funds may prove detrimental to the long-term financial health of the community schools when grant eligibility lapses. Private donations, cited as a large source of revenues for community schools, comprised 4.5 percent of revenues received. In a series of studies conducted by the Auditor of State between FY 1996-97 and FY 1999-00, State revenues were identified as comprising 49.2 percent of all revenues in the Big 8 districts while local revenues comprised 39.6 percent of revenues received.

On the expenditure side, only 51.1 percent of community schools' revenues were directed to salaries and benefits. Generally, Ohio's traditional public school districts spend between 70 and 85 percent of funds on salaries and benefits. Because community schools direct a higher percentage of operating revenues to purchased services (37.3 percent), the salary structure offered to teachers is affected and, ultimately, the percentage directed to salary and benefits is diminished.

On a national scale, Ohio's funding levels are similar to the levels in most Charter School Law states. **Table 4-3** shows the base funding amounts for Charter School Law states

**Table 4-3: Charter School Law States Base Charter School Funding Levels**

Amount	States
< \$4,000	HI, KS, NC
\$4,000 - \$5,999	AZ, CA, CO, DC, DE, FL, ID, LA, MI, MO, NM, OH, PA, SC, TX
\$6,000 - \$7,999	AK, CT, IL, MA, MN, NJ, NY <sup>1</sup> , RI

Source: Charter School Law States' statutes

Note: The following states did not give a specific amount of funding: AR, GA, IN, MS, NV, NH, OK, OR, UT, VA, WI, WY.

<sup>1</sup> Costs for New York were reported as \$4,000 - \$10,000 depending on the size of the district. Therefore, an average was estimated at \$6,000

In the majority of states, funding follows the student. For example, in Alaska, California, Florida, Louisiana, Massachusetts, Michigan, Nevada, and Texas, 100 percent of State and local funding follows students. In New Mexico, a minimum of 98 percent of State and local funding follows the students based on average district per-pupil revenue. In Colorado, 95 percent of State and local per-pupil funding is provided to the charter school for each student. Other states allow the local school board to negotiate the rate with the charter school. This occurs only in states where the local board can be the charter school sponsor, such as Arizona

Several states specify the amount of State and local funding received by the charter school in the charter. These states include Arkansas, Georgia, Wisconsin and Wyoming. A smaller number of states limit funding to the state base per-pupil amount. States allocating state-level funding only are Idaho, Indiana and Minnesota.

Funding in Ohio is complicated by the manner in which State Foundation payments are allocated to the community schools. The ORC requires OSF to fund the community school student in the district-of-residence with the per-pupil amount and then deduct the per-pupil amount from the district-of-residence and sends the funds to the community school. The reallocation of funds creates contention between the district-of-residence and the community school in several instances: when the student has been attributed to the wrong district-of-residence, when the student enrolled in the community school was not included in the October ADM count of the district-of-residence and when the student has been evaluated at a special education funding level above that recorded under the January Education Management Information System (EMIS) adjustment. In cases of wrong assignment, the district-of residence loses the per-pupil funding until the error is rectified. However, in cases where a student's special education designation changes after the January EMIS adjustment, the district-of-residence may experience a reallocation of funds to the community school in excess of the amount at which the student is funded. In those cases, the district-of-residence can lose a substantial amount of funding (up to \$25,000 annually per student).

#### Recommendations 67-69:

- 67. SchoolNet should restructure the administration of its grant program to ensure that community schools are extended the same rights and benefits as traditional public**

**schools. SchoolNet should also consider providing supplemental funds to community schools for wiring or satellite links to improve connectivity and ensure a greater level of equity between public schools. Finally, SchoolNet should consider providing additional grant funds to those community schools that were excluded from the program on the basis of administrative reasons during their first year of operations.**

- 68. ODE should ensure that start up funds are available in a timely manner and that established community schools are not relying on the start-up grants to fund operating expenditures beyond the start-up period. In several community school financial statements, it was noted that operating expenditures were being paid from grant funds during the three years of grant eligibility which may impact the long term financial viability of the community school once the grants are terminated. (See also recommendation 60.).**

**ODE should develop rules for grant expenditures in the second and third years of operations to encourage community schools to use start-up funds for capital and equipment purchases. In cases where the community schools are relying on grant funds for general operating expenditures, OSF should assist the school in balancing guaranteed revenues and operating expenditures.**

- 69. ODE and OSF should ensure that changes in special education funding levels attributed to community schools are also reflected in the State share of the district-of-residence Foundation payment. The current methodology creates an unintentional financial penalty for traditional public school districts by reallocating per-pupil funding in excess of that paid for certain special education students under certain circumstances. Although ODE representatives have discussed this problem, no resolution had been achieved by the time of reporting. When a student is categorized in a higher special education category than was identified by the district-of-residence, OSF should provide the district-of-residence with the full State share of special education funding which would then be deducted and paid to the community school. ODE should also support statutory changes to ensure that the full special education funding is should be paid to the district of residence regardless of the time frame in which the categorization took place.**

## **D. Federal Funding Available to Community Schools**

Several Federal discretionary grants are available to charter schools to support school activities such as after-school programs, parent literacy initiatives, social services, and professional development. The *Guide to US Department of Education Programs and Resources* provides a brief description and application information for each of the programs as well as general information on how to apply for Federal grants. Grants with the greatest importance to community schools are shown below:

- **ESEA Title I:** Funds are allocated to states on a non-competitive, formula basis. Title I monies are allocated to schools with high percentages of poor children to help meet the educational needs of at-risk children. To be eligible for Title I funds, a community school must have a population of children from low-income families that equals or exceeds that of its district or is at least 35 percent of the total student population.
- **ESEA Title II:** Funds are allocated to improve the teaching and learning of all students by ensuring that teachers and other staff have access to sustained and intensive high-quality professional development .
- **ESEA Title II Part B:** Part B funds are used by each State to develop, implement, and refine State content and performance standards, assessment systems, and accountability systems.
- **ESEA Title IV:** Funds are allocated to the states on a non-competitive, formula basis. The purpose of the program is prevent violence in and around schools and strengthen programs that prevent the use of alcohol, tobacco, and other drugs. Thirty percent of the funds distributed are allocated to 10 percent of the districts determined to have the greatest need. The remaining 70 percent is allocated based on the Average Daily Membership (ADM) of public and non-public schools. Categories of activities for use of the funds include curriculum development and acquisition, teacher and staff training, student instruction, before-and-after school programs, and parent and community education and involvement.
- **ESEA Title VI:** Funds are allocated to states on a non-competitive, formula basis. Title VI provides funds to plan, design, and implement creative programs within eight Innovative Assistance Programs which include technology, educational reform projects, prevention of illiteracy in the student and adult population, and school reform activities consistent with the Goals 2000: Educate America Program. Once a school is identified as eligible to receive funds, a consultant from the Division of Federal Assistance is assigned to work with the school to implement Title I and Title VI programs.
- **Individuals with Disabilities Education Act (IDEA):** Funds are used to strengthen academic expectations and accountability for children with disabilities by helping states cover the extra costs of serving these children. Funds may be used provide free and appropriate education for students with disabilities age 3 to 21, or initiate, expand or supplement special education and related services including vocational education services for students with disabilities currently receiving educational services. These funds may also be used to stimulate the development of comprehensive, quality programs and services, to demonstrate innovative practices and procedures, and to encourage educational reforms that will enhance the learning potential of students with disabilities. IDEA funds contribute to community schools' funding for the education of disabled children.

Other Federal programs extended to community schools include the Class-Size Reduction Program, used to reduce class size and provide professional development; the Title VII, Part C Emergency Immigrant Education, which provides assistance to areas with large increases in immigrant student populations; and the National School Lunch, School Breakfast, Special Milk and Government Donated Food Programs, which provides cash reimbursement and government donated food to serve meals to disadvantaged children.

Although Federal funds comprise only about 7 percent of community school funds and about 6 percent of funds for traditional public school districts, Title I funds help support a variety of educational programs. However, the mobility of community school children presents a dilemma to OSF as the State must recalculate Title I funds on a monthly basis to accommodate children changing schools. In prior years, the calculation was performed based on October and April ADM counts. ODE representatives stated that some of the criteria of the Federal programs were difficult to meet under Ohio community school law.

A U.S. Department of Education study found that most charter school operators believe that Federal Title I and special education funds were fairly allocated. However, they cited barriers to obtaining the funds. Charter school operators indicated that increased state and regional assistance in planning would improve their likelihood of maximizing Federal revenues. Also, technical assistance is needed to ensure that Federal program resources are directed to the appropriate, eligible students, a sentiment that has been reiterated by Ohio community school operators.

In April 1998, the U.S. General Accounting Office (GAO) issued a report on Federal funding available to charter schools. The study finds that nationwide, charter schools have been denied access to Federal funds. Two-fifths of charter schools did not apply for Title I funds for reasons ranging from lack of time and ineligibility, to the belief that applying for the funds would cost more than the monies received. The study found several barriers to charter schools' accessing Federal funds, including difficulties in establishing program eligibility, workload demands that prohibit schools from pursuing program funds or make doing so too costly, charter school operators' lack of program and administrative experience, and ineffective working relationships with state or local program administrators. Also, some aspects of the Federal formula aid and grant programs create problematic eligibility requirements for community schools. These barriers also exist in Ohio, although Ohio community schools report better access to Title I funds.

A report on Michigan's Charter School Initiative: From Theory to Practice, supports the GAO findings. The report identified that charter schools receive much less Federal aid than other public schools in Michigan. In FY 1997-98, Michigan charter schools averaged only \$34 per pupil in Federal aid while their surrounding school districts averaged \$661 per pupil. This difference was attributed, in part, to the inexperience of charter school officials and the lack of administrative staff.

To resolve some of the discrepancies in Federal funding and access to funds, the U.S. Department of Education announced \$182 million in support for charter schools in October 2001. The additional funds will be used to set up, develop and expand charter schools and to promote the exchange of information regarding what works to improve student performance among charter schools across the nation. The portion of these grants allocated to Ohio was \$18,112,500. However, ODE only recently began the release of funds as a method for their allocation had not been approved until mid-November.

**Recommendations 70-71:**

- 70. ODE should offer regular training to all community school administrators on the types of Federal funds available and how each may be obtained. Funding gaps in Federal grant programs between traditional and community schools can be expected to close as community schools become familiar with Federal sources and more adept at submitting grant proposals. The Office of Grants Management and OSO should offer assistance to community schools during their first three years of operation to ensure that they are familiar with and able to complete the grant application process. Providing assistance to grant applicants is essential to ensure that community schools maximize all funding opportunities.**

**In conjunction with increased training and assistance on Federal programs, grants and private funding, ODE should provide training to community school operators on the development of donation or planned giving programs. Establishing a revenue stream through a charitable campaign could provide community schools with additional resources over a long-term basis.**

- 71. As the current Title I process is laborious and relies on some manual processes, ODE should consider linking current information systems to allow for improved Title I funding computation. The Title I, EMIS and Web-FTE reporting systems could be linked to permit faster Title I calculation by ODE. Automation of this process would greatly speed Title I calculations and the resulting funding disbursements to both community and traditional schools.**

**E. Office of School Finance Payment Process**

Ensuring the receipt of funds by the community schools is the responsibility of OSF. OSF began directing funds to the first year community schools in FY 1998-99. During the past four years, the community school funding methodology has changed four times. Each change was executed without input from community schools and with little or no forewarning.

During the first and second years of community school operations, ODE attempted to process payments to the community schools in the same manner as traditional public school districts. Community schools were required to estimate their enrollment and project the districts-of-residence for each student enrolled. Many community schools estimated in an overly optimistic manner. This trend was more apparent in the group of schools starting operations in the second year. ODE accepted the estimates in each year and used them to fund the schools until January when October FTE counts were then employed. Because the second year schools had overestimated in the first six months of operations, many received little funding after the January adjustment. Riser Academy closed during its first year of operation as a result of overestimation and the withdrawal of funds from January through the end of the year. Riser was paid \$690,000 but was only entitled to receive \$370,000 based on the Academy's attendance records. ODE was unable to reclaim funds from Riser because the school closed.

To ensure that overestimation did not effect future schools in the same manner as Riser Academy, ODE altered the payment process just before community schools began their third year of operations in Ohio. OSF put into effect the monthly FTE reporting system which allowed schools to estimate in July and August but required actual full-time equivalent pupil counts for September through June payments. Essentially, the FTE process counts the number of children in a school each day over the course of a month. Once FTE counts were submitted to ODE's Area Coordinators, the Area Coordinators forwarded the FTE lists to the districts-of-residence for verification (see **FTE Process** for additional details).

Because of the continuing problems with overestimation, OSF studied the amounts overestimated in prior years. Based on the study, OSF determined that a payment at 50 percent of estimated attendance would be paid to new schools until the September FTE count was received. After the FTE counts were received, the community school would be compensated at 100 percent of actual attendance. The 50 percent reduction would be reimbursed to the school in equal payments included in the Foundation amount through the remainder of the school year. In most cases, community schools do not receive their first full payment until November of the first year of operations. Because late receipt of start-up funds is cited as a barrier to community school success, the 50 percent reduction may lower start-up schools' ability to meet the educational needs of their students.

The new 50 percent reduction in estimated enrollment policy was not announced to fourth year schools until two months before they opened. A management company representative stated that the company used funds from its operating schools to float its new schools during the first four months of operations. Other community school officials had to reduce their programs in established grades to accommodate new grades and the reduced compensation for those pupils.

OSF has not investigated the effects of the 50 percent reduction in estimated enrollment payments on start-up schools. In an Auditor of State (AOS) study of FTEs reported and paid to FTEs audited (see **FTE funding**), only a 10 percent average overpayment was shown. OSF has also not adjusted

the process for established schools that may add a new grade level each year to accommodate returning students. Community schools in this situation are also subject to the 50 percent reduction in estimated enrollment.

During AOS interviews, community school officials described the OSF funding methodology changes as impulsive, reactionary and poorly communicated. In each case, the change in methodology was targeted to resolve a problem caused by a single community school, but the change impacted all community schools. The most recent change greatly impacted new and expanding schools and may limit future start-up community schools. Also, funding changes are poorly communicated by OSF, explanations are not provided and the changes are often made on short notice. During the last change, OSF did not communicate the change in policy to OSO and placed responsibility for informing community schools on the Area Coordinators. Community school operators are unable to plan for funds because the methodology remains unstable.

Because the timing of funding is critical to charter school start-up, several states have developed provisions for speeding up basic aid payments to charter schools. In several states, the base per-pupil aid payments begin to arrive before the school year begins. Texas breaks the funding into 13 payments that begin the first month children attend the school. North Carolina schools receive their first payment of funds on July 1 while Minnesota and New Jersey provide the funds beginning on July 15. In Illinois, Delaware and the District of Columbia, charter schools receive 50 percent or more of their annual funding prior to October 1.

OSF has not taken into account the necessary flow of funds for start-up and operations in community schools. Full funding is delayed two months because of the FTE methodology and community schools must subsist on start-up grants until Foundation funding is received. During round-table discussions with OSF and ODE employees, the flow of funds to community schools was discussed but no resolutions were put forward by ODE officials (see also **community school law, funding and financing** subsection).

#### **Recommendations 72-74:**

- 72. ODE should restructure the FTE process to significantly streamline the negotiation process between community schools and traditional public schools. Community schools should be paid for all students claimed in the FTE reports. Any adjustments should be based on challenges by traditional public schools that can be proved by the traditional school. Adjustments should be communicated to and verified by the ODE area coordinators. Adjustments can be made by OSF in the following month's foundation payment. ODE should begin the restructuring of this process and implement the new process on July 1, 2002.**

**Community schools should receive their foundation payments within 30 days of the close of the service month. For example, if students are served during the month of**

**May, the May payment should be received by the community school no later than June 30<sup>th</sup>. Adjustments that are proven by the district-of-residence should be made in the payment for the June service month.**

**During the start-up phase of the community school, FTE estimates should be paid at 90 percent of the estimated amount (see Table 4-7). Estimated amounts for July and August should be adjusted in September based on the actual FTE count. Adjustments for challenges by traditional public schools should take place beginning in October.**

- 73. OSF should ensure that any funding methodology used takes into account the funding flow concerns of community schools. Decisions regarding funding processes should not be based on isolated instances of school failure. Arbitrary decision making of this kind impacts effective community schools and, in some cases, causes financial hardship in efficient and effective operating systems. OSF and ODE should ensure that any funding methodology decisions do not unfairly punish successful community schools for limited community school failures.**
- 74. OSF and OSO should increase communications with community schools in the area of foundation payments and the FTE process. Increased communications would reduce the strain between community schools, OSF and OSO and limit mis-communication and inconsistent directions. OSO and OSF should consider using email, FAX, mass mailings and the ODE web-site to improve communications with community schools.**

## **F. Foundation Payments to Community Schools**

Foundation payments to community schools have been delivered on an inconsistent time schedule. Community schools that use direct deposit report up to a two week deviation in the date of deposit. These inconsistencies make it difficult for community schools to plan for the payment of monthly expenditures. Community schools have reported late payments during the first three months of the year and around holidays. Community schools report that electronic deposits are inconsistent and have appeared anywhere between the 3<sup>rd</sup> to the 16<sup>th</sup> of the month. These payments also seem to be erratic or delayed when a national holiday falls during the pay period. Although ODE and OSF do not have contracts with each school stating the date deposits will be available, the inconsistent payment dates negatively impact community schools' cash flow. As Foundation funding is community schools' largest source of revenues, a delay in payment can put a severe strain on the schools' financial health.

Also, community schools reported problems in identifying the payment when made by direct deposit. In some cases, the settlement statement has followed the payment by up to two weeks. Although OSO has updated its page on the ODE web site to show the monthly statements for each community school, OSF is not fulfilling its payment obligations when deposits and statements are tardy.

During AOS interviews, representatives of the Greater Cincinnati Community Academy, Inc. (GCCA) remarked on the untimeliness of OSF payments. As a component of the operational review, GCCA provided a complete roster of Foundation payment receipt dates which are shown in **Table 4-4**. The lowest and highest payment, and the earliest and latest dates of receipt of payments for each year are shown in bold.

**Table 4-4: GCCA Foundation Payments**

Service Month	FY 1999-00 Payment Date	FY 1999-00 Payment Amount	FY 2000-01 Payment Date	FY 2000-01 Payment Amount	FY 2001-02 Payment Date	FY 2001-02 Payment Amount
May	<b>08/03/99</b>	<b>\$286,449</b>	<b>07/13/00</b>	<b>\$276,906</b>	<b>07/13/01</b>	218,527
June	08/16/99	\$286,449	08/07/00	\$276,906	08/13/01	<b>217,685</b>
July	09/15/99	\$286,449	09/08/00	\$276,906	09/12/01	217,685
August	10/13/99	\$286,449	<b>10/06/00</b>	\$276,906	<b>10/05/01</b>	<b>272,733</b>
September	<b>11/5/99</b>	\$286,449	11/08/00	\$197,794	N/A	N/A
October	12/07/99	\$286,449	12/07/00	\$202,290	N/A	N/A
November	01/10/00	\$286,449	01/11/01	\$173,203	N/A	N/A
December	02/08/00	\$336,642	02/08/01	\$184,095	N/A	N/A
January	03/10/00	\$353,773	03/08/01	\$195,762	N/A	N/A
February	04/07/00	\$379,121	04/09/01	\$176,462	N/A	N/A
March	05/9/00	\$379,203	05/07/01	\$101,282	N/A	N/A
April	<b>06/30/00</b>	<b>\$379,203</b>	06/07/01	<b>\$92,242</b>	N/A	N/A

Source: GCCA Foundation Payment Statement and Bank Account Records

As shown in **Table 4-4**, GCCA's Foundation payments ranged in date of receipt from the fifth of the month to as late as the third of the following month. Also, payments were not consistent in dollar amount. Without a detailed statement to explain the difference in Foundation amounts, GCCA relied on assumptions regarding the payment amounts. GCCA opened in September of 1999 but its FTE payments during June, July and August, which are intended to be used to secure supplies, facilities and teacher contracts, were tardy. ODE's policy is to fund FTE estimates during the three months prior to the community school opening.

In October of 2001, GCCA received a statement from OSF showing a deduction of \$969,013 which results in a monthly adjustment of \$107,668. These adjustments were the result of the ODE final ruling on the FY 1999-00 FTE audit, which was not completed until September 2001. GCCA representatives stated that they had estimated the overpayment and resulting deductions based on information provided during an AOS financial audit. However, GCCA received no notification from

ODE about the adjustment for the FTE audit. AOS has learned that some community schools have negotiated the repayment of FTE amounts and, in some cases, a reduction of the amount owed. GCCA was not apprized of its ability to negotiate the reduction amounts.

Other community schools remarked on the lack of communication about their FTE audit results and the resulting deductions. Although these adjustments are being carried out two years behind schedule, community schools were not notified of upcoming deductions or permitted to prepare for the associated financial impact. In many cases, the adjustments have severely hindered community schools' ability to pay operating expenses. It is estimated that at least two schools will be forced into financial failure based on the impact of the deductions within the next 12 months.

**Recommendations 75-76:**

- 75. OSF must ensure that all adjustments are communicated to the community schools in a timely manner. OSF should consider sending statements to the community schools via email and FAX and posting adjustments to a secure web page. Area coordinators should also receive notification of all accepted adjustments which must be based on verification from the traditional public district, not the community schools. Community schools should continue to be able to appeal adjustment decisions. All appeals of verified traditional district challenges should be heard and determined by ODE within 60 days after the service month.**
  
- 76. OSF should immediately update the FTE manual to contain explicit policies and directions on FTE counting and individual educational plan (IEP) documentation. All community school operators should receive at least a full day of training on the following subjects: the methods that should be used to count FTEs, documentation requirements for IEPs and special education categories, how to determine district-of-residence, and excused and unexcused absences. These subjects should also be included in the manual and should be accompanied by pertinent examples to clarify the policy. OSF should institute monthly FTE audits during a community school's first year of operation to ensure community school operators fully understand the FTE reporting requirements.**

**Community schools, particularly those in their first year of operation, should ensure that all FTE counts appropriately reflect the number of students being educated by the community school. Any weighted special education amounts received by the school must be supported by adequate IEP documentation.**

## G. FTE Enrollment Process

ORC § 3314.08 requires the State Board of Education to adopt rules on enrollment reporting by community schools and requires the board of education of each city, exempted village, local district and community school to annually report the following information:

- The number of students entitled to attend school in the district who are enrolled in grades 1 through 12 in a community school;
- The number of students entitled to attend school in the district who are enrolled in kindergarten in a community school;
- The number of those kindergartners who are enrolled in all-day kindergarten in their community school; and
- The name of the community school in which the child is enrolled.

ODE has developed rules for reporting FTEs which are outlined in the *Community Schools FTE and Enrollment Procedures Review Guide*, but the definition of an FTE student (1080 hours for a standard school year in a traditional school) remains flexible for community schools and is governed by the contract between the sponsor and the school.

Traditional schools report student enrollment and fall Average Daily Membership (ADM), a student count derived from a one-week period during the school year. Community schools report enrollment as full time equivalents (FTEs) or actual students in attendance on a daily basis. Additionally, traditional schools are funded based on annual October ADM reporting, while community schools are required to report FTEs on a monthly basis, cataloged on a daily basis. Under special circumstances, a traditional school district may adjust its ADM count in February. Monthly reporting is necessary for community schools due to enrollment fluctuations that many community schools experience. For example, a community school that specializes in the education of foster children may see extreme enrollment fluctuations from month to month as children are placed in permanent homes. Without monthly FTE reporting, community schools could receive too much or too little funding.

Under the current system, each separate community school defines an FTE as a component of its contract with the sponsor. A standard school year for a traditional school is 920 hours of instruction or 180 days. FTE definition is problematic for ODE as its school funding systems have been based on the number of students in attendance throughout the year as measured through EMIS. This definition has been confined to 180 instructional days or 1080 hours. Stipulations on what determines a community school FTE can be found in the contracts between community schools and their sponsor organizations. An FTE is contractually defined as one of the following:

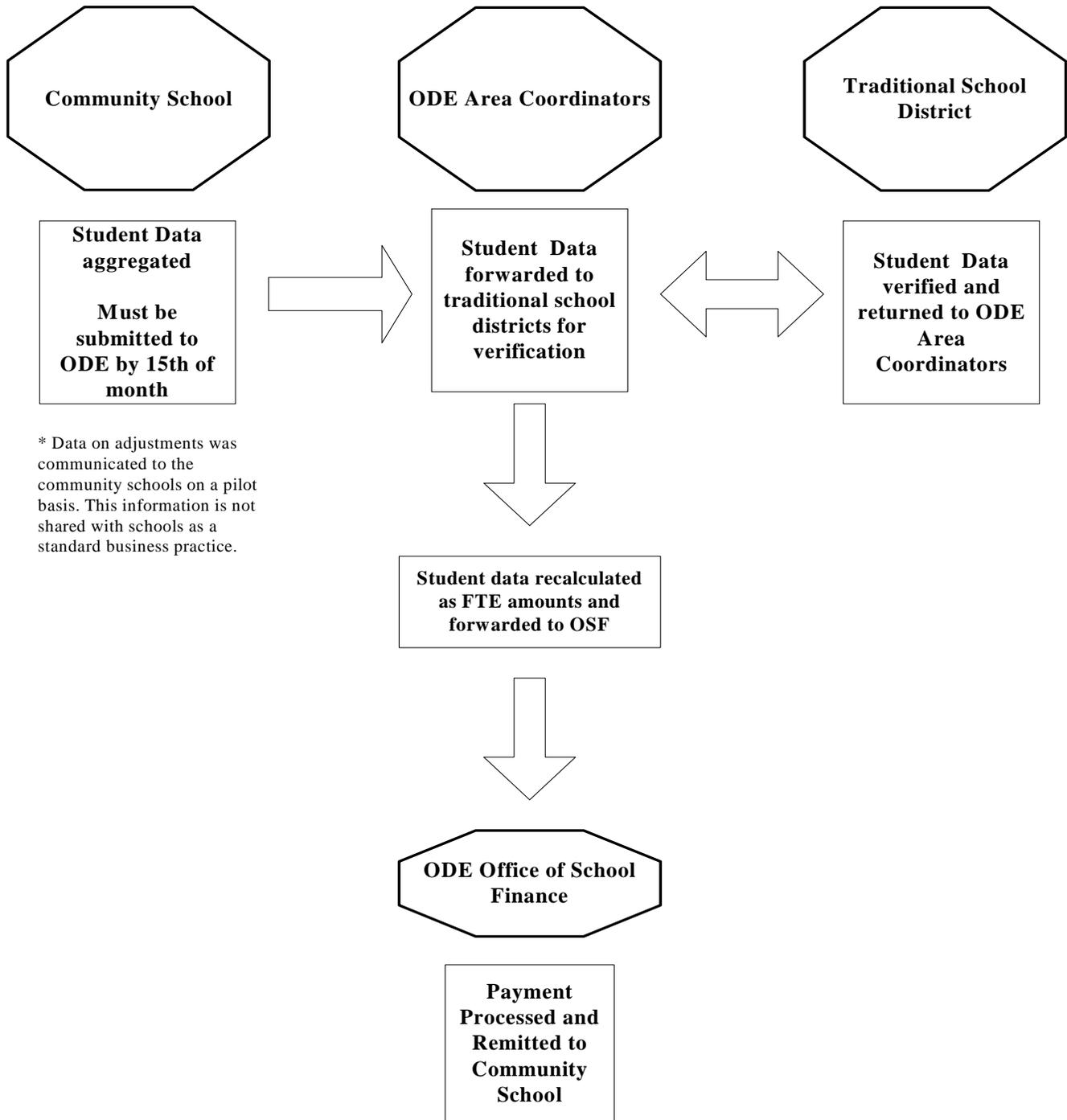
- 180 days of instruction,
- More than 180 days of instruction,

- 920 hours of instruction, or
- More than 920 hours of instruction.

The lack of a uniform definition for FTEs causes inconsistencies in the enrollment counts used by ODE. Inconsistency in enrollment reporting could cause over-funding to a school that counts a part time student as a complete FTE or to a school that bills for more than 180 days or 920 hours of instruction.

The Office of School Options outlines the FTE reporting and verification process in the *Community Schools FTE and Enrollment Procedures Review Guide*. **Chart 4-1** displays this process.

**Chart 4-1: FTE Funding Process**



The first step in the monthly FTE review process requires the community school to collect and provide the following data to the Area Coordinator for each of its pupils:

- Student name (listed alphabetically by grade level and home school);
- Grade level by classroom;
- Home address(s);
- Date of enrollment (date pupil enrolled in the community school);
- Resident district IRN by district;
- Date of withdrawal (if pupil withdrew during the school year) or entry (if entering during the school year);
- Type of student:
  - ▶ All-day kindergarten;
  - ▶ Special Education Category 1 through 6 (verified by IEP);
  - ▶ Regular student; and
- List of students enrolled in all-day kindergarten.

After receiving this information from the community school, the Area Coordinator groups the students by district-of-residence and sends the compiled list to each district for verification.

The traditional school districts receive the monthly list of community school students that reside within the district and are required to review and verify the students attending community schools. At this time, the traditional school district has the opportunity to “redline” (cross off the community school’s list) any student on the community school’s list. Traditional districts can redline a student for the following reasons:

- Student does not reside within the district;
- Student is currently enrolled in the district;
- Student is over/under age of eligibility; or
- Student has received a GED.

Community schools are denied funding for those students who are redlined. If a traditional school fails to redline a student who fits into one of the above categories, the State per-pupil funding amount would be deducted from the traditional school’s funding payment. However, if the district-of-residence improperly redlines a student, the community school must prove that student’s attendance to receive funding. The lost funding is made up in future Foundation payments, divided into equal sums through the remainder of the fiscal year.

After verifying students, the list is returned to the Area Coordinator. The verified list is reviewed and forwarded to OSF, minus the redlined students. From this list, OSF determines the proper funding amount and sends a funding check to the community school. Many community schools have stated that information is not provided by OSF or the Area Coordinators to identify which students

were redlined and denied funding. When Area Coordinators fail to provide this information to the community schools, the community schools cannot identify which students have been denied and subsequently have no ability to rectify the problem.

The current OSF process is cumbersome and delays funding for FTEs to the community schools. As shown in **Table 4-5**, the FTE process takes approximately six weeks to complete.

**Table 4-5: FTE Funding Process Time-line**

Process Step	Date
Attendance Month	May
Student Report Mailed to Community Schools	5/21/01
Student Report Due from Community School to Area Coordinator	6/8/01
Student Information Mailed to Districts-of-Residence	6/8/01
District-of-Residence Returns Information to Area Coordinator	6/15/01
Last Date for Area Coordinator Data Entry	6/22/01
Payment Month	July

Source: OSF

ODE plans to implement a web-based system in July 2002 that may decrease the total process time. As shown in **Table 4-5**, community schools can report new enrollees up to the first week of each month. The new system will enable schools to delay reporting new enrollees up to the 15<sup>th</sup> of the month. Although the web-based system, when implemented, will increase communication between community schools and traditional schools and decrease paperwork involved in the present process, the following are problems that exist and have not been corrected by OSF:

- The present design of the web-based system eliminates the ODE Area Coordinators from direct involvement in the FTE process. The Area Coordinators will only be consulted when a problem arises between the traditional districts and the community schools.
- No deadline exists for information to be entered into the system. An edit process cutoff, when schools would be unable to make additional changes, has not been planned. As the system is designed, students can be redlined by traditional schools up until the final day of the period, leaving community schools little or no time to investigate and take action on the errors.
- Since no set date is provided as to when information will be final for the month, community schools theoretically must monitor the web-site on a daily basis to determine if any changes have been made.

Also, the potential exists for the traditional school to redline a student who does not meet redline criteria to deny funding to community schools. Although the web-based process may reduce manual FTE counts, without intervention by Area Coordinators and a period of negotiation for community schools to prove attendance, the potential exists for community schools to be systematically denied funding for FTEs served.

Of the four reasons to redline a community school student, determining the correct district-of-residence has frequently proved troublesome. In the past, disagreements regarding correct boundaries between bordering school districts have occurred. These disagreements have usually been mediated by the ODE Area Coordinator. Disagreement over district boundaries could potentially be avoided, but instead, has extended the length of time it takes to complete the FTE monthly verification. The simple act of verifying a district-of-residence will be deferred under the web-based system until the community school has determined the boundary— a step which could delay per-pupil funding in a large number of cases during critical funding periods.

#### **Recommendations 77-80:**

- 77. The FTE verification and payment methodology currently being used greatly disrupts community schools' cash flow and payment for general operating expenditures. Community schools can not float two to three months of expenditures as is required under the current system. Furthermore, the laborious process of challenging and verifying community school and district-of-residence FTE information creates a bottleneck between the provision of services to students and receipt of payment from ODE.**

**FTE reports should be submitted to ODE within 10 days of the end of the service month. Remittance for the service month should be received by the community school no later than 30 days after the end of the service month. As discussed in recommendation 72, adjustments should be made in the following month and should not hold up FTE payment processing.**

**OSO field consultants, discussed in recommendation 32, should assist start-up schools in FTE estimation in July and August and FTE reporting during the school year. The presence of OSO consultants and the provision of ongoing assistance will greatly reduce the number of adjustments required on both a monthly and annual basis.**

- 78. OSF must develop a standard methodology for measuring instructional opportunity time for all community school student FTEs. Once this methodology is developed, all existing contracts should be amended. OSF should develop a guide to be distributed to community schools on its web page which describes the instructional time constituting an FTE, the FTE reimbursement methodology, and the documentation required to**

**support claims for FTE reimbursement to community schools. (See also recommendation 72.). Because some community school over-funding cases have underscored the need to define an FTE for funding purposes, this should be a priority for OSF.**

- 79. The web-based system should be modified to create an edit period for information to be drawn off the system for processing. Community schools should have a deadline for data entry. Once the deadline for data entry has passed (10 days after the close of the service month), ODE should process and send payments to the community schools. All challenges and appeals should be adjusted during the next payment period. While community schools should be able to input new children and make modifications to student files, the data reserved for the payment period should not be accessible after the FTE data has been drawn down off the system for payment.**
- 80. OSF should develop and distribute to all Ohio public schools a time-line for dispute resolution and a detailed description of the steps each party must take to ensure that a comprehensive and fair verification process exists between community and traditional schools. The burden of proof for challenged students should be the responsibility of traditional public districts, not the community schools. ODE should ensure that all traditional districts and community schools have a full understanding of the revised process before the beginning of the FY 2002-03 academic year.**

## **H. FTE Adjustments**

The monthly FTE review process results in adjustments to the monthly State Foundation payments. These adjustments occur as a result of a traditional school redlining a community school student. The redline may be caused by incorrect information from the community school or traditional public school (see **FTE enrollment process** for a list of redline causes). When a student is redlined by a traditional school district, the community school loses funding for that student for the month. There is currently no process for community schools to appeal the challenges of the traditional school. Many community schools have expressed concerns that unwarranted redlines have been made by traditional schools to delay community schools' funding for the month. The only recourse available for community schools to refute redlines is to provide documentation to the Area Coordinator to verify the student was in attendance at the community school. If it is found that the community school should be receiving funding for that student, the amount of funding lost for that month is then divided by the remaining months left in the school year and repaid on a monthly basis. Even though the community school regains funding for the challenged student, the prior month's lost funding can hamper a community school that operates on a tight budget. The ability to appeal redlines has not been made available to the community schools in the new web-based system. OSF officials have stated that traditional districts will not hold up community school funding because the web system

log on screen has a statement of affirmation and a school superintendent that reports inaccurate information could lose his or her superintendents license.

One common area of contention between the community schools and the traditional school districts is the district-of-residence issue. Due to irregular district boundaries and similarly-named districts, some disagreements have arisen concerning a student's correct district-of-residence. Because district-of-residence determines which traditional district FTE amounts are drawn from, students who live on the border of two districts may be disputed by both potential districts-of-residence. Disputes that occur because of districts-of-residence many times delay funding for community schools and cause Area Coordinators to spend time attempting to resolve a seemingly simple problem which could be managed through zip code mapping or some other technological solution. There is no standard data base which ODE uses to determine a student's correct district-of-residence. Many times this problem must be solved with the aid of the county auditor, or in some instances, with the actual inspection of the location of the residence by the Area Coordinator.

ODE Area Coordinators perform mandatory year-end audits after a community school's first year of operation. These audits, which can occur as early as August, reconcile total per-pupil funding paid to actual FTE enrollment. These audits result in year-end funding adjustments (the community school may owe or be owed funds) and have been significantly affected by the per-pupil funding methods used, redlines and the availability of special education students' individual educational programs (IEPs). **Table 4-6** highlights the funding methods presented in the **per-pupil funding** section.

**Table 4-6: OSF Per-pupil Funding Methodologies**

FY 98-99	Community school per-pupil funding based on estimated annual FTE enrollment.
FYs 99-01 <sup>1</sup>	Community schools required to report monthly enrollment and funded on estimated enrollment and actual FTE enrollment
FY 01-02	Community schools per-pupil funding based on 50 percent of estimated enrollment or 100 percent actual FTE count.

Source: OSF Interviews

<sup>1</sup> New monthly reporting method was not instituted until 9/12/00.

ODE recognized that the initial funding method resulted in significant overestimation of FTEs by community schools and frequent overpayments to the community schools. Under the initial funding method, community schools were provided funding for the first six months year based on estimated FTEs. Estimations were often overly optimistic and were not revised for lower enrollment figures. In an effort to decrease reliance in estimations, ODE instituted a new funding method after the start of FY 1999-00 which used estimations only for the first six months of the year then used actual enrollment. Although this method decreased reliance on community school estimations, its implementation after the start of the school year still caused significant overpayments in cases where

initial enrollment projections were overly optimistic. Further information on per-pupil funding methods can be found in the **per-pupil funding** section of this report.

**Table 4-7** displays total overpayments made to community schools and the adjustment amounts that resulted from the year-end audits.

**Table 4-7: Overpayments to Community Schools**

	Total Payments	Adjusted Payments	Overpayment	Percentage Overpaid	Average Overpayment
<b>FY 98-99</b>	\$11,465,900	\$10,988,848	\$477,052	4.3%	\$31,803
<b>FY 99-00</b>	\$53,479,603	\$49,048,177	\$4,431,426	9.0%	\$90,437

Source: ODE OSF

During FY 1998-99, 15 community schools were provided State Foundation funding. Of these 15 schools, only 2 (13.3 percent) were underpaid with the remaining 13 being overpaid. As shown in **Table 4-7**, community schools were overpaid by \$477,052 (4.3 percent) in FY 1998-99. The number of community schools receiving State Foundation funding increased to 49 in FY 1999-00. Of these schools, seven (14.3 percent) were underpaid and two required no adjustments. Overpayments totaled \$4,431,426 for FY 1999-00, increasing the overpayment percentage to 9.0 percent.

Based on interviews with community school and ODE officials, overestimation of FTEs during the first year of operation is usually not intentional but is a common occurrence. This usually occurs in first year schools due to lack of experience, unreliable methods of gauging interest in the school, and overly optimistic estimations of enrollment. An Arizona study found a similar correlation between poor reporting and inexperience in school operations, particularly in the areas of enrollment and special education. Also, a significant component of overpayments in FY 1999-00 resulted from improperly maintained IEPs. The new funding method for FY 2000-01 funds schools only 50.0 percent of estimated FTEs in July and August, then on actual FTEs for the remainder of the year. ODE projects overpayments to decrease significantly under the new funding methodology.

Community schools are required to return overpayments to the State. This is done by dividing the amount of the adjustment by the remaining months left in the school year and deducting this amount from State funding payments. Thus far, ODE has been very slow in identifying and applying the adjustments to the community schools. Adjustments made for the first year of community school operations (FY 1998-99) were completed in September of 2001. As displayed in **Table 4-7**, the average overpayment increased from \$31,803 in FY 1998-99 to \$90,437 in FY 1999-00. Adjustments to individual schools have ranged from below \$50 to almost \$1 million. Adjusting a community school's monthly funding payment by a large amount could cast doubt on the operating ability of a community school that is running on a tight budget. By dividing the adjustments into monthly deductions, ODE has attempted to lessen the impact that large adjustments could have on

a community school's budget. However, some community schools have stated that funding adjustments are not being adequately communicated by ODE until the monthly funding check arrives. This lack of communication does not provide community schools the proper time to plan for any adjustments. Furthermore, some community schools have negotiated lower repayments based on information provided to ODE. Other community schools have negotiated lower monthly repayment schedules to ensure their financial viability. ODE has not communicated this option to all community schools and appears to selectively apply this negotiated process to a limited number of State-sponsored schools.

By reporting and verifying community schools' actual FTEs on a monthly basis, adjustments due to overestimated FTEs should decrease significantly from the first two years of operation. However, year-end audits will still be necessary to verify special education FTE reporting. Public schools are required to have a valid IEP for each special education student. Increased special education funding is provided based on the disability identified in the IEP. Annual FTE audits have found that many community schools, particularly in their first year of operation, do not have valid IEPs on file for many students. There are many reasons for the failure of community schools to produce valid IEPs. The most common reasons are as follows:

- Some community schools are ill equipped to assess the needs of special education students and do not have adequate funds to provide the necessary staff to complete assessments.
- Many first year community schools are not familiar with the IEP process and do not properly create and/or maintain IEPs.
- Some traditional school districts have been unable to locate IEPs for former students to forward to the community school, or the traditional school district has withheld the IEP because the student owed fines.

Without valid IEPs for special education students, Area Coordinators are required to reclassify those students as regular education students. This reclassification causes the community schools to lose the weighted funding amount that is provided for special education.

One point of confusion among community schools, traditional schools and ODE involves the deadline to create IEPs and obtain special education funding. ODE policy states that community schools have until January 5 to create IEPs and change special education classifications. However, ODE has failed to properly communicate this policy to community schools. Many community schools were unaware that this policy existed and were creating IEPs throughout the school year. In addition, even though a January 5 deadline exists, IEPs are not matched to special education students until the subsequent year-end audit. In order to ensure that appropriate IEPs are developed for all special education students within the ODE-required time frames, ODE must clearly communicate all deadlines to the community schools.

**Recommendations 81-83:**

- 81. To help traditional and community schools settle boundary disputes concerning district-of-residence, ODE should use its existing resources to develop a database of school district boundaries. This database should be searchable using the zip-plus-four or street address methodology. This will help eliminate disputes that have arisen over the correct district-of-residence, reduce the time involved in determining district-of-residence and reduce disruptions to community school funding resulting from district-of-residence disputes. Community schools or OSF could also use the database to research correct districts-of-residence before filing an FTE report for a student. Such information may already be compiled in the Northern Ohio Data and Information Systems (NODIS) archives at the Cleveland State University Urban Center and in ODE files used to mail district and school report cards.**
  
- 82. ODE should conduct FTE audits on a monthly basis during a community school's first year of operations, and semi-annually thereafter. Any year-end adjustments should be communicated within 90 days of the end of the fiscal year through an exit conference between ODE personnel and community school operators. The exit conference should serve as a forum to discuss the results of the FTE audit. All audit results should be in writing and should be provided to the community school prior to the exit conference.**

The new monthly monitoring (see recommendation 76) and FTE adjustment process should resolve most large year-end adjustments. However, community schools should be provided longer time horizons (12 months or more) to repay overpayments in excess of 2.5 percent of total revenues. Those schools that continue to need substantial monthly adjustments after the first year of operation should continue to receive monthly FTE audits and adjustments. Extending the repayment period for first-year schools would help mitigate the funding impact of FTE adjustments while more frequent FTE audits will help community schools with frequent FTE count errors rectify any reporting problems.

- 83. OSF should examine IEPs during monthly FTE audits during a community school's first year of operation. In the case of established community schools, IEP audits should be conducted in October and November to ensure compliance before fully funding IEP status for the entire year. Community schools that habitually lack support for IEPs claims for funding should be audited for IEP documentation on a monthly basis until they achieve an appropriate level of compliance. Schools that do not maintain appropriate documentation should receive additional support from ODE's Office of Exceptional Children. More frequent IEP examinations will help community schools with frequent IEP documentation errors rectify any reporting problems and will better safeguard the rights of Ohio's special education students through the increased oversight.**

## I. Management Reporting and Financial System Controls

Financial management and reporting comprises an important component of sound school administration. Because community schools are exempt from several of the statutory financial controls, such as competitive bidding and purchase orders, the development of internal controls is essential. Several of the community schools in Ohio have suffered adverse financial outcomes as a result of poor financial controls and financial oversight. In many cases, community school operators do not have a background in government finance and are unfamiliar with the requirements of school accounting and accountability. School financial management and systemic controls are not stressed in OSO training. Financial training and technical assistance for most community schools is limited or non-existent. LCESC, however, acts as fiscal agent for the schools it sponsors, thereby reducing the community schools' need for the implementation of strong controls.

As a component of regular financial audits, the Auditor of State conducts a review of financial system controls. In the course of testing for FY 2000-01, several areas of weakness were identified. The highest impact areas of financial system control weakness are shown in **Table 4-8**.

**Table 4-8: Financial Control Lapses Cited in Community School Audit Reports**

Recommendation	Percent
No fixed asset accounting	60.0%
No purchasing controls, competitive bids, or transaction documentation that ensure appropriate expenditures	55.0%
Bank reconciliations not performed monthly , checks and deposits not recorded timely and correctly	35.0%
No payroll controls, hire rate, date and Board approval. Withholding is not documented	27.5%
Improper receipting and control procedures for collection, deposit, and reimbursement of cash and petty cash	27.5%
Long-term debt not documented, proceeds not spent on intended purpose and not approved by Board	25.0%
Annual Report not filed with AOS (ORC 117.38), monthly revenue and expense activity, monthly budget to Board & per-pupil expenditures (ODE contract Art. 3 Sec.B Ex.2), and number of students (ORC 3314.08(2) )	22.5%
Tuition charged: mandatory parent volunteer, no control procedures for before and after school care tuition ORC3314.08(G)	22.5%

**Source:** Auditor of State FY 2000-01 Community School Audit Management Letters

Inadequate management controls result in substandard management reporting, a reduced ability to track and predict revenues and expenditures, and, in some cases, ORC violations. As shown in **Table 4-8**, purchasing controls and bank statement reconciliations, two of the most important cash controls used, are absent in 55 percent and 35 percent of community schools, respectively. Payroll and petty-

cash purchasing controls are also absent or weak in 27.5 percent of community schools. Cash control weaknesses leave community schools vulnerable to fraud and theft. Other violations, such as those related to long-term debt, annual reporting and tuition are directly related to ORC requirements. The Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) highlighted several consequences of lack of management and internal controls in Florida community schools. These are shown below:

- Adequate accounting systems not maintained;
- Accounting functions not separated;
- Federal withholding taxes not consistently paid on time;
- Board meetings not adequately noticed;
- Adequate documentation to support background checks of teachers and teacher qualification not maintained;
- Adequate documentation that facility inspections were complete not maintained;
- Sales tax overpaid;
- Federal funding lost;
- Restricted school funds used for operating expenses;
- School funds used to make loans to employees;
- School funds used to pay lodging and restaurant costs for out-of-town guests;
- School funds used to cover travel costs for family members and used to purchase personal items; and
- Business transactions between charter schools and its administrators, board members, and related family members frequently caused potential conflicts of interest.

Each of these financial system control problems can cause a school to plunge into financial distress. Furthermore, financial system control weaknesses reinforce public perception of the financial volatility of charter schools and contribute to the notion that charter schools misuse public funds. Effects similar to these were noted by AOS financial auditors in a number of Ohio community schools.

Additional areas of financial management and system control weakness were noted in a smaller number of schools. These included:

In 17.5 percent of Ohio community schools audited in FY 2000-01, the school was deficient in the following:

- Uniform System of Accounting (Ohio Administrative Code (OAC) 117-2-01, ORC 3314.03 (A)(8))
- State Teachers Retirement System (STRS) and State Employees Retirement System (SERS) “Employee”, “Earned Wages” and “Withholdings” (ORC 3307.01, 3307.381 ,3307.51 ,3307.53, 3307.56, 3309.47, 3309.49)

In 15.0 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Tax exempt status (Failure to apply for and be approved for Federal tax exemption) (26 US 501 (c)(3))
- Two signers on checks (Section 7 Financial Controls of the Charter)
- Written Investment Policy

In 12.5 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Workers Compensation, Medicare withholdings and payments (ORC 3314.03 and IRS code 3102)

In 10.0 percent of community schools audited in FY 2000-01, the school was deficient in the following:

- Payroll Cycle Controls and Reconciliations
- Delinquent Retirement Payments and Incorrect Withholdings
- Insurance Coverage and Policies, Insurance in force and approved by Board

OSF and OSO do not provide additional information to community schools on financial management and system controls. Training in financial management is limited to a half-day during the start-up year. OSF and OSO do not recommend training courses or support additional financial training for community school employees. Community school operators stated that financial success depends, in part, on a knowledgeable financial officer who exercises system controls.

As a component of its study on charter schools, OPPAGA identified several hallmarks of school financial stability and viability. These included:

- Whether the school had a positive fund balance;
- Whether the school accurately or conservatively projected its revenues;
- Whether the school spent within its budget;
- Whether the school spent within the revenues it received;
- Whether the school had sound controls in place to safeguard finances; and
- Whether the school had demand for its services.

In several of the examples, financial management and system controls are critical to financial success within the charter school. Controls are critical to budgetary control, expenditure monitoring, and safeguarding resources. Without adequate financial controls, community schools may continue to be plagued with financial problems ranging from expenditures exceeding revenues to theft.

OSO requires community schools to submit an annual budget projection and a quarterly update of actual expenditures. These reports are required to assure that the community school is operating on “firm financial footing.” However, evidence of review of the required reports could not be obtained.

In at least one case, a state-sponsored school submitted the required reports which, upon examination, showed the school to be in extreme financial peril. No evidence of OSO action could be found, even though OSO intervention might have permitted the school to terminate operations in a manner other than abruptly closing its doors.

**Recommendations 84-86:**

- 84. Community school sponsors should follow up on AOS financial audit and management letter recommendations as a component of site visits. Addressing all financial audit and management letter comments will help community schools improve their financial management and system controls.**

**Also, community school operators should ensure that financial audit and management letter comments pertaining to financial system controls are addressed prior to the next AOS audit. Ensuring proper functioning of financial system controls is imperative to good fiscal management. If community schools better attend to financial audit and management letter comments, they could streamline administrative tasks and create greater degrees of financial efficiency.**

- 85. ODE should also examine all required reports to ensure that community schools are on stable financial footing. More frequent monitoring of community schools’ financial condition would help ODE and other sponsors identify potential financial problems more rapidly. If ODE becomes the agency responsible for authorizing sponsors, it should require sponsors to review reports for potential financial problems. Also, OSO should add financial monitoring to its semi-annual site visit checklist to ensure that the appropriate financial reports are collected and examined.**

**When such problems are noted, action plans to remedy the financial problem should be implemented immediately. Even in cases where eventual closure is evident, ODE should work with the community school to extend services through the end of the school year to minimize disruption to students.**

- 86. Community school operators should seek to hire qualified financial officers with training in government finance to assist the school in implementing proper financial management and control procedures. Financial officers should have appropriate credentials to support their role in the community school.**

**OSO should develop a team of retired or semi-retired government financial officers to serve as interim financial officers for community schools (financial consultants) and work on a contract basis for schools that may need long-term assistance. The individuals selected for this team should be carefully screened by ODE and should have demonstrated a good track record in government finance.**

**Finally, most community schools do not require the services of a full-time financial officer. ODE's financial consultants could provide financial services to a single community school on a part-time basis. ODE should consider a program similar to the Uniform Accounting Network Visiting Clerk Program in which a full-time clerk serves several villages. A comparable program could be established through ODE where a full-time financial officer serves several community schools. Also, community schools could consider pooling their resources to hire an individual on a full-time basis to serve several schools.**

## **J. Community School Long-term Financial Health and Equity**

As noted in the OPPAGA report, maintaining a positive ending fund balance is an important characteristic in charter school financial health. The long-term success of a charter or community school requires the school to set-aside funds for future development, to establish a reliable revenue stream to fund current and future operations, to augment working capital, and to provide for potential emergency expenditures. A study in Michigan found that the financial condition of a charter school depended primarily on how long the school had been operating and whether it was an independent school or part of a chain. Michigan charter schools entering their third year with a positive ending fund balance usually had long-term success. Also, schools in a chain of charter schools were able to draw on the resources of their corporations.

As a component of this performance audit, AOS conducted a study of community school revenues, expenditures and retained earnings. Among Ohio community schools that were started in fiscal years ending June 30, 1999 and 2000, there were wide variances in the amount of retained earnings at the end of the fiscal year. Of the 15 community schools that were started in FY 1998-99, only two had negative retained earnings at year end. In FY 1999-00, 26 additional community schools were started. Of those 26, 10 had negative retained earnings at year end.

**Table 4-9** shows the particular line items that were identified to have the greatest change from the overall State averages of all community schools started in FY 1999-00. All amounts are on a per-pupil basis for comparative purposes.

**Table 4-9: Community School Revenues, Expenditures and Retained Earnings**

Financial Statement Line Items	State-wide Community School Average <sup>1</sup>	Averages for Community Schools with Negative Retained Earnings <sup>2</sup>	Variance
Number of Pupils	216	160	(56)
<b>Revenues:</b>			
State Foundation	\$4,571	\$5,686	\$1,115
DPIA	\$878	\$831	(\$47)
State Special Educational Program	\$83	\$0	(\$83)
<b>Expenditures:</b>			
Salaries	\$2,670	\$3,854	(\$1,184)
Fringe Benefits	\$653	\$917	(\$264)
Purchased Services	\$2,421	\$3,270	(\$849)
Materials and Supplies	\$412	\$772	(\$360)
<b>Donations</b>	\$155	\$556	\$401
<b>Federal &amp; State Grants</b>	\$759	\$846	\$87
<b>Year End Retained Earnings</b>	\$576	(\$1,334)	(\$1,910)

Source: Annual reports filed by community schools

<sup>1</sup> State average is comprised of community schools that began operations in FY 1999-00.

<sup>2</sup> School average is all schools with negative retained earnings at year end FY 1999-00.

As indicated in **Table 4-9**, community schools that have a negative retained earnings at year-end have a smaller number of students attending their schools than the state average. Revenues, such as State Foundation, donations, and Federal and State grants are above the State average. However, Disadvantaged Impact Pupil Aid (DPIA) and State Special Education Programs revenues are below the State average. The largest variances are located in the expense line items: salaries, fringe benefits, purchased services, and materials and supplies, which are all greater than the State average. Of these expenses, salaries has the largest variance when compared to the State average with purchased services a close second. This is significant as the majority of school districts' expenses are comprised of salaries and related fringe benefit expenses. High purchased services costs are related to management company fees. These factors of reduced revenues and higher expenses contribute to the negative retained earnings at fiscal year end.

A report on Michigan charter schools determined that they spent a larger proportion of funding on administration, operations and maintenance (25 percent for charter schools compared to 11 percent in surrounding districts). Also, schools open for at least three years tended to carry year-end balances

of 13 percent while schools operated by management companies retained an average of 17 percent of total revenues. The high expenditures for operations and maintenance are supported by U.S. Department of Education studies that show facilities as the most significant cost issue facing charter schools.

An OPPAGA report identified that approximately 9 percent of Florida charter schools operated at a deficit during FY 1999. OPPAGA attributed deficits to overestimation of FTEs and poor business practices. The study found that, of the 31 schools reviewed, 5 schools (19 percent) overestimated their FTE count by more than 12 percent, which had substantial impact on their ending fund balance. Also, 12 schools (71 percent of schools with budgets) overspent their budgets in the prior fiscal year, beginning the next year in a deficit situation. OPPAGA determined that 14 of the schools (45 percent of schools studied) had not developed budgets to guide expenditures. An additional 39 percent had expenditures exceeding revenues. Finally, 48 percent of charter schools studied did not have sound management controls. OPPAGA recommended additional written procedures and adoption of the *Best Finance Management Practices* which was developed by the Florida Commissioner of Education.

#### **Recommendations 87-89:**

- 87. To improve the financial management of community schools, ODE should identify specific financial performance measures and key indicators for community schools to help governing boards better monitor and respond to changes in the schools' financial condition. Financial management should also be incorporated into OSO's technical assistance program.**

**Financial performance measures should be included in a sponsor's monitoring plan and should be used as an early warning system to anticipate financial problems within a community school. Furthermore, financial performance measures should be included in the contract and should become a component of annual performance evaluations.**

- 88. Sponsors should identify community schools facing financial difficulty and should investigate and recommend areas where revenues can be increased and expenses can be trimmed. Also, data on averages for various types of expenses incurred by community schools State-wide, such as salaries, fringe benefits, and purchased services, should be collected by ODE and should be distributed and used as a baseline data management tool for new schools that are in the planning and start-up process. By using these figures, the community schools should ensure that amounts they are paying for different types of services are in line with standard market rates. This in turn will help these community schools operate more efficiently and maintain a positive retained earnings.**

- 89. Community schools should be encouraged to develop budget reserves. When a community school has obtained positive retained earnings, a general budget reserve could be established by the school for future unforeseen expenses. This reserve could then act as a rainy day fund to keep the community school financially stable. Community schools should consider developing rainy-day funds up to 5 percent of annual expenditures.**

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# Community School Facilities

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## Background

Community school founders in Ohio and other Charter School Law states face facility acquisition and operation challenges when starting a new school including local opposition which can hinder the sharing of funds. Many traditional school districts are struggling to meet their own facility needs and are unwilling to share their limited school facility financing with community schools. One of the biggest obstacles community school founders face is acquiring suitable and affordable facilities. Other problems include:

- Limited capital funding;
- Limited access to credit;
- Expensive leases and renovations of temporary spaces;
- Inexperience and lack of knowledge about building codes; and
- Few vacant buildings suitable for use as schools.

During FY1999-00, 10 Ohio community schools did not open due to facility problems, and 34 start-up community schools were unable to open for FY 2000-01 due to facility-related issues. Conventional lenders and landlords typically are hesitant to enter into agreements with start-up community schools because the schools lack both tangible assets and operating histories. As a result, when a community school first opens, it has a limited selection of facilities to choose from, is forced to enter into short-term leases for “as-is” facilities, and often has to pay a relatively high rent that reflects the landlord’s requirement of a risk premium to lease space to the school. Newly started community schools operate in a variety of facilities, including leased mall space; surplus school buildings; space shared with other groups, such as child care providers; and converted commercial space.

Once a facility is obtained, extensive repairs and renovations are often necessary before a certificate of occupancy can be issued and the community school can commence operations. However, some schools have opened prior to receiving certificates of occupancy or passing building and fire inspections. If certificates of occupancy are not obtained, the schools may be closed and the education of the students interrupted. Examples of schools that have opened prior to receiving health and safety approval include:

- The Horizon Science Academy in Cleveland which was closed in January 2001 by Cleveland city officials after a team of inspectors found the building had no certificate of occupancy, no food service license, no water connection to its sprinkler system and construction-related dust and particles in the air.

- In February 2000, Monroe Academy in Toledo was ordered by a Toledo City building inspector to move out of its facility, a former restaurant, because electrical and other systems had not been inspected and approved.
- In FY1999-00, the International Preparatory School in Cleveland was forced to move from its building because of fire code violations. The school was moved to another facility which was closed two months later for a four week period because of fire code violations.

## **Findings and Recommendations**

### **A. Facilities Funding Resources**

Charter School Law states across the nation have made various facility financing mechanisms available to charter schools including grants, direct loans, loan guarantees, loan pools, tax-exempt bonds, and tax credits. Each mechanism has different fiscal and programmatic implications. Ohio community schools' primary source of public funding is foundation payments received from the Ohio Department of Education. ORC § 3317.012 states the foundation payments are designed to cover "base cost of an adequate education per-pupil". Base costs are intended to cover operating costs as well as capital purchases and facility maintenance. Traditional school districts have the ability to augment their base cost foundation funds for equipment and facility purchases through capital levies and bonds. Community schools are not permitted to issue capital debt and their ability to purchase equipment and facilities with operating dollars is somewhat limited.

According to *Charter Schools: Limited Access to Facility Financing*, by the United States General Accounting Office (GAO), although many charter schools use their per-pupil allocations to help pay for their facilities-related costs, literature indicates that the allocation can be insufficient to cover both the operating and the facility costs charter schools incur for the following reasons:

- First, charter schools in many states receive less than 100 percent of the allocation that school districts or states give to traditional public schools. Allocations for charter schools range from 75 to 100 percent of what other traditional public schools receive.
- Second, because of their small enrollments, charter schools often cannot take advantage of the economies of scale that larger traditional public schools realize. The allocation is based on enrollment, and most charter schools are small.

- Third, the per-pupil allocation is based on the average cost per student for operating expenses and does not include costs for financing a facility.

Community schools often seek out additional funding streams including grants, loans, and donations to pay for leases, capital improvements, and renovations. Loans are not easily accessible nor are they frequently available to community schools for facility financing because they are perceived to be poor credit risks. According to GAO, lenders view charter schools as credit risks for several reasons including:

- Limited cash flow tied to enrollment. Because the annual per-pupil allocation is the primary source of funding for most charter schools, enrollment changes can significantly affect the amount of cash available. Without evidence of a steady and growing enrollment, lenders may have concerns about whether a charter school will have a steady source of funding to repay borrowed funds.
- Limited credit history. A charter school that is just opening or that has been in operation for only a year or two generally has an insufficient credit history to qualify for a loan. Without a proven record of acceptable performance as a borrower, many charter schools appear to be risky to potential lenders.
- Inexperienced management teams. In many cases, charter schools are begun and operated by teachers, parents, and others who want an alternative to the existing traditional public school system. While these education entrepreneurs have a vision for the academic programs they want to create, they may not have the financial and managerial experience necessary to convince potential lenders that they can provide the management skills necessary to successfully run a school.
- Short-term charters. Charter schools are subject to periodic evaluations that determine whether their charters— usually in effect for 3 to 5 years— will be renewed. Loans for large-scale building and renovation projects are generally amortized over a 15-to-30-year term. Thus, lenders are wary of charter schools because their charters may expire or be revoked before a loan matures.

Some charter schools have even pooled their resources to acquire private sector funding. According to officials representing lenders and credit rating agencies, charter schools are seen as a growing market and they expect that, over time, as more charter schools succeed, gain experience, and develop a reputation as good business investments, more private sector financing will be made available to them.

Some community schools turn to private donors to assist them in financing their facility needs. However, the number of such donations appears to be small. A Colorado study identified 5 donated

buildings among 64 schools. Youngstown Community School has been successful in receiving assistance from private donors and is currently constructing a new building using private donations made to the school.

In contrast, traditional districts can obtain facilities financing from a variety of sources including tax-exempt bonds, local tax revenues, and the Ohio School Facilities Commission. The Ohio School Facilities Commission is responsible for administering four major programs including the Classroom Facilities Assistance Program. The Classroom Facilities Assistance Program (CFAP) is the state's largest program and provides funding through a state-local partnership to meet the classroom needs of each district. Eligibility for the program is based on a district's placement on the Ohio Department of Education's equity list. Eventually, every traditional public school district in the state will receive aid through the Classroom Facilities Assistance Program to construct new buildings or complete major renovation projects.

Because of the inadequate supply of suitable school facilities available to community schools, the majority of them are located in non-traditional school buildings including former retail space, office buildings, medical facilities, industrial space, church buildings, and buildings owned by local nonprofit organizations. In FY 1999-00, community schools paid between \$1.25 and \$17.50 per square foot for leased space. Some lease agreements include utilities, maintenance, and custodial costs and some do not. In addition to paying for the lease, a number of community schools have spent significant amounts of money renovating their leased facilities.

Furthermore, related party issues between some community schools and their management companies impact facility lease costs. Rent may appear lower for some community schools that are operated by management companies but this savings is offset by higher management company fees. Management and sponsor fees may not be shown as a component of the lease costs but often have a noted impact on the overall cost of school operations. Because of these hidden costs, comparisons of facility lease costs are difficult to accurately depict.

**Table 5-1** contains FY 1999-00 student enrollments, lease amounts, building square footage, and total expenditures for a sample of one-third of the community schools in operation during the 1999-00 school year.

**Table 5-1: FY 1999-00 Community School Building Costs**

School	Lease Amount	Student Enrollment	Building Square Footage	Total Operational Expenditures	Lease Cost/Student	Lease Cost/Square Foot	Lease Cost as a Percent of Expenditures
Horizon Science	\$198,000	194	16,500	\$968,018	\$1,021	\$12.00	20.5%
Rhea Academy	\$100,800	63	19,600	\$564,717	\$1,600	\$5.14	17.9%
City Day	\$150,000	233	N/A	\$1,102,211	\$644	N/A	13.6%
Cincinnati College Prep	\$250,000	348	N/A	\$2,389,737	\$718	N/A	10.5%
World of Wonder	\$121,255	199	38,709	1,228,078	\$609	\$3.13	9.9%
Life Skills of Cleveland	\$131,250	248	7,500	\$1,334,260	\$529	\$17.50	9.8%
Edge Academy	\$36,000	102	6,000	\$656,304	\$353	\$6.00	5.5%
ISUS Trade & Tech Preparatory	\$80,000	364	64,000	\$1,549,569	\$220	\$1.25	5.2%
Ida B. Wells	\$18,000	50	7,273	\$372,359	\$360	\$2.47	4.8%
Oak Tree Montessori	\$27,000	58	N/A	\$558,700	\$466	N/A	4.8%
Life Skills of Akron	\$74,256	332	6,188	\$1,693,750	\$224	\$12.00	4.4%
Harmony	\$102,482	397	66,869	\$2,429,635	\$258	\$1.53	4.2%
Hope Academy-Brown	\$48,000	271	N/A	\$1,538,458	\$177	N/A	3.1%
Greater Cincinnati	\$36,000	655	13,000	\$3,470,026	\$55	\$2.77	1.0%
Dayton Urban Academy	\$12,000	174	N/A	\$1,297,548	\$69	N/A	1.0%
<b>Average</b>	<b>\$92,336</b>	<b>246</b>	<b>24,564<sup>1</sup></b>	<b>\$2,155,337</b>	<b>\$487</b>	<b>\$6.38<sup>1</sup></b>	<b>7.7%</b>

Source: Building Lease Agreements, AOS FY 00 Community School Audits, LOEO Year Two Report

<sup>1</sup> The average is based on the information available for the 10 schools.

In January and February 2001, the Charter Friends National Network and Ksixteen conducted a national mail and phone survey of charter schools regarding their facilities costs and experiences. According to the survey, the national average cost is \$690 per-pupil per year on lease and loan payments. However, individual school per-pupil costs can vary significantly. During the 1998-99

school year, Arizona charter schools spent an average of \$1,436 per student on capital expenses. Four Arizona charter schools spent more than \$4,600 per student for capital costs. In Ohio, community schools are spending an average of \$487 per-pupil per year on lease payments, which is \$203 or 29 percent less than the national average.

Ohio has made progress in resolving facility related issues for community schools. With the passage of House Bill (HB) 94 in July 2001, Ohio became the first state in the nation to establish a charter school classroom facilities loan guarantee program to back private loans for buying and renovating community school facilities. The loan guarantee program reduces collateral risk and ensures investors that they can recoup their investment if the community school ceases operation. Under the program, the Ohio School Facilities Commission (OSFC) may guarantee up to 85 percent of the principal and interest of the loan for up to 15 years. Extending the loan term to a maximum of 15 years increases the economical viability of the school. Eligibility for the program is limited to new start-up schools, and the loan may be used to obtain classroom facilities by any means except new construction. The OSFC is not permitted to exceed an aggregate liability of \$10 million to repay loans guaranteed by the program.

The OSFC is responsible for determining if an applicant is creditworthy and for adopting rules that prescribe loan standards and procedures to protect the State's interest. As of November 2001, the OSFC has not adopted any standards for the program. However, OSFC has contracted with a group to assist with the task. According to HB 94, OSFC had until December 2001 to adopt rules for the administration of the community school facilities guaranteed loan program. However, these rules had not been adopted at the time of reporting. Guaranteed Loans could open the door for community schools to borrow from a number of different lenders at market rates.

Additional changes to facilities funding were proposed in September 2001. HB 364 proposes three significant changes to the Community School Classroom Facilities Loan Guarantee Program. Those changes include:

- Redefining *classroom facilities* to include buildings, land, grounds, equipment, and furnishings used by a community school in furtherance of its mission and contract.
- Expanding the purpose of the loan to include acquiring, *improving*, or *replacing* classroom facilities for the community school by lease, purchase, remodeling of existing facilities, or any other means *including* new construction.
- Extending program eligibility to all community schools.

HB 364 also proposes the creation of the Community School Classroom Facilities Support Program which would provide each start-up community school with \$450 for each student served by the school in the year the stipend is paid. According to the current language of the bill, community

schools may use the monies paid under the program to help defray any rental or loan payments made for classroom facilities. The bill does not state how the Community School Classroom Facilities Support Program would be funded.

Charter school states across the country recognize the financial burden charter school founders face when financing a facility. A variety of measures including offering per-pupil allocations and tax-exempt financing have been taken to provide facilities-related financial assistance. With the passage of Ohio HB 94, community schools are permitted to enter into loans with terms up to 15 years. **Table 5-2** illustrates some of the methods other states are using to provide facilities funding to charter school operators.

**Table 5-2: Facilities Financing Methods Used in Other Charter School States**

	Grants for Capital Costs	Loan and Charter Term Extensions	Low-Interest Loan Pools Available	Per-pupil Facilities Cost Allocations	Tax Credits	Tax-Exempt Financing (Bonds)
Arizona	✓					✓
California			✓	✓		
Colorado		✓		✓		✓
District of Columbia				✓		
Florida	✓	✓		✓	✓	
Illinois			✓			
Minnesota				✓		
North Carolina						✓
Ohio		✓				
<b>Total</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>3</b>

Source: state laws and departments of education

Two states, Arizona and Florida, offer grants to pay for capital costs. Arizona provides access to grants from a Stimulus Fund that was established in the State Treasury specifically for the use of charter schools. Funds can be used for start-up costs, as well as for the cost of renovating or remodeling buildings. Florida offers its charter school operators financial assistance through two different programs, the School Infrastructure Thrift Awards and the Public Education Capital Outlay and Service Trust Fund. Both programs provide funding for construction, remodeling, and renovations. In addition, the School Infrastructure Thrift Awards can be used for property purchases and lease payments.

Recognizing that short-term charters discourage private lending because lending institutions do not feel comfortable risking significant amounts of capital on institutions that may cease operations within five years, Colorado and Florida amended their charter school laws. Both allow charter schools to extend their agreements beyond the typical five year period to provide charter schools access to long-term financial resources. (See **community school law** section for a detailed discussion of charter school terms.) Colorado permits sponsors to extend chart term limits with charter schools if the extensions are necessary for the school to secure more favorable funding for facilities. The change allows charter schools to enter into 30-year agreements which makes them eligible for better interest rates and has saved some school up to \$10,000 a month on mortgage costs. In Florida, charter schools operated by a municipality, state university, or other public entity are eligible for a 15-year charter, and schools operated by a private, not-for-profit status corporation are eligible for up to a 10-year charter.

Both California and Illinois provide charter schools with access to a low-interest loan pool. As of January 2001, approximately \$20 million was deposited in California's Charter School Revolving Loan Fund and was available for loans. The one-year loans can be used to lease a facility, make capital improvements, purchase instructional materials and equipment, and expand programs. In Illinois, eligibility for the \$2 million Charter School Loan Fund is limited to the City of Chicago charter schools to finance facilities and related equipment. Loan terms are limited to 5 years and borrowers are charged interest at the rate of 5 percent per year on the unpaid balance.

The most popular form of capital financial assistance is per-pupil allocations. Currently, there are four states plus the District of Columbia that are providing per-pupil allocations or have recently passed legislation authorizing such action. The details of per-pupil allocations are shown in **Table 5-3**.

**Table 5-3: Charter States Per-pupil Allocation Programs**

State	Program Offered
<b>California</b>	The <b>Charter School Facility Program</b> was established in October 2001 by S.B.740. Eligible schools receive up to \$750 per unit of average daily attendance for reimbursement of up to 75 percent of the annual facilities rent and lease costs for the building. Eligible costs also include fees associated with site improvements, remodeling projects, and deferred maintenance. California has appropriated \$10 million for the program for FYs 2002 through 2004.
<b>Colorado</b>	In April 2001, a \$5.3 million charter facilities program was signed into law giving charter schools \$322 per-pupil annually to help offset facilities expenses. The amount is expected to increase over time as a new permanent education fund created with surplus tax revenues continues to grow.
<b>District of Columbia</b>	Charter schools receive a per-pupil facilities allowance for capital expenses. Charter schools received \$1,058 per-pupil for the 1999-00 school year, approximately the average per-pupil capital expense in other public schools for the prior fiscal year.
<b>Florida</b>	Charter schools receive a per-pupil amount ranging from \$826 to \$1,252 per-pupil based on grade level for facilities costs. The per-pupil calculation is based upon an estimate of typical school construction costs amortized over 15 years.
<b>Minnesota</b>	The Building Lease Aid program provides charter schools with no less than 90 percent of the actual lease cost or up to \$550 per student, whichever is smaller.

**Source:** state laws and statutes

In an effort to increase business partnerships in education, reduce school and classroom overcrowding, and offset the high costs for educational facilities construction, Florida passed legislation in 2001 to encourage the formation of business partnership schools and satellite learning centers. When a charter school in a workplace or a charter school in a municipality is established, any portion of the facility used by the charter school will be exempt from ad valorem taxes. Typically, when a property owner is calculating a lease price, property taxes are included in the amount. Florida property owners who lease facilities to charter schools-in-the-workplace or charter schools-in-a-municipality receive a tax credit for the space used by the charter school. The credit allows property owners to reduce the lease price offered to the charter school.

According to *Paying for the Charter Schoolhouse: A Policy Agenda for Charter Schools Facilities Financing*, a national study released in 1999, even though charter schools are public schools, in most states, including Ohio, they do not enjoy the same tax advantages as other public schools. The report also implied that state laws are sometimes unclear as to whether charter schools themselves may issue tax-exempt debt or whether other public entities, such as local governments or special-purpose finance authorities, may issue tax-exempt bonds on behalf of the charter schools. According to GAO, the Federal government currently supports the acquisition of public school buildings and other public facilities through tax code provisions that allow tax exemptions on the income from municipal bonds as well as other types of bonds. Tax-exempt bonds provide access to private funds at lower interest rates than charter schools would otherwise have to pay in the open market. Investors are

willing to accept a lower interest rate on tax-exempt bonds because of their reduced tax burden. The Internal Revenue Code caps the amount of certain types of tax-exempt bonds that may be issued in a state. Subject to this cap, states and their qualified governmental units may authorize non-governmental persons to issue private activity bonds. States could in turn include charter schools among the other authorities that are allowed to issue tax-exempt private activity bonds within the state. Three states, Arizona, Colorado, and North Carolina have passed legislation to provide charter schools with access to bond proceeds to finance charter school construction.

In June 1999, Arizona passed legislation permitting non-profit charter schools to apply for financing from the Industrial Development Authorities in the form of loans from the proceeds of bond sales. The Maricopa County Industrial Development Authority took advantage of the new legislation in March 2000 and pooled the proceeds of a \$27 million bond sale to accommodate the combined needs of 7 Arizona charter schools. In Colorado, the General Assembly increased the statutory powers of the Colorado Educational and Cultural Facilities Authority (CECFA) in 1998 to include charter schools among its eligible borrowers. The CECFA issues tax-exempt revenue bonds, notes, or other obligations and loans the proceeds from the sale of these obligations to public and private non-profit institutions for the purposes of construction or improvement of facilities, the acquisition of equipment, or for refinancing outstanding capital debt. In 1999, Colorado also gave charter schools direct access to bonds at a public rate by defining charter schools as “governmental agencies.” Last year in Colorado, 6 charter schools benefitted from the sale of nearly \$23 million in bonds. In 1998, North Carolina expanded its Educational Facilities Finance Agency to include non-profit organizations providing K-12 public education. The authority can now sell bonds for charter schools and transfer the proceeds to the schools for their capital needs. However, North Carolina has not issued any bonds on the behalf of charter schools due to concerns regarding the soundness and creditworthiness of the schools seeking assistance.

### **Recommendations 90-93:**

- 90. The Ohio School Facilities Commission should immediately develop and implement rules for the administration of the Guarantee Loan Program. As the OSFC refines the standards for the Community School Classroom Facilities Loan Guarantee Program, the OSFC should contact other charter states, such as Colorado, Illinois, and North Carolina, to determine how they establish a charter school’s creditworthiness.**

**When determining whether or not an application should be approved, the following should be included: the reasonableness of the price, the appropriateness of the space for the proposed activity, the feasibility of transporting pupils to the building, and the financial condition of the school. A solid set of rules for participation in the Guarantee Program will help OSFC better serve community schools and safeguard taxpayer resources.**

91. **Program eligibility for the Classroom Facilities Loan Guarantee Program should be extended to all creditworthy community schools in Ohio. Though most schools have obtained facilities, the facilities may not be suitable to their needs. Providing the opportunity for all community schools to use the Guarantee Program would allow established schools to optimize their facilities and better meet their students' needs.**
92. **The Ohio School Facilities Commission should work in conjunction with the Office of School Options (OSO) when administering the Community School Classroom Facilities Loan Guarantee Program to help ensure the Commission is choosing to guarantee loans for schools which have demonstrated financial stability and a strong academic proposal and program. Coordination between ODE departments and other entities has been cited as problematic in several areas of this report. Increased coordination between OSFC and OSO will ensure that accurate and timely information is provided to community schools seeking facility assistance.**

**The General Assembly should consider developing a facilities commission exclusively for community schools. A new commission should be granted the authority to extend facility grants to community school developers and to issue bonds for facility construction and renovation. Community school operators should be encouraged to use vacant school and government buildings whenever possible.**

93. **ODE should advocate new legislation to expand financing opportunities and improve community school developers' access to community school facilities financing. There are a number of financing methods in use by other Charter School Law states, as illustrated in Table 5-2. In addition to the Community School Classroom Facilities Loan Guarantee Program and the loan term extension currently in use in other states, three other facilities financing methods should be considered: charter term extensions, per-pupil facilities cost allocations, and exemption from certain ad valorem taxes.**

**A charter term extension beyond a five-year period reinforces the school's viability and encourages private lending. The extension also provides community schools with access to long-term financial resources that can significantly reduce mortgage costs, as evidenced in Colorado. ODE should promote legislation extending community school charter terms after a community school has appropriately demonstrated its operating capacity (see the community school law section). However, charter term extension legislation should not be implemented until an effective monitoring and oversight program has been implemented. (See the community school monitoring and oversight section.).**

**Offering a per-pupil facilities allocation to each charter school is the most popular financing method in use. The provisions in HB 364 that create the Community School**

**Classroom Facilities Support Program and provide each start-up community school with \$450 for each student served should be considered by the Legislature. Based on the information in Table 5-1, the average lease cost per student was \$487 in FY 1999-00, indicating the proposed \$450 per-pupil figure is reasonable and appropriate. Prior to implementing new legislation, the General Assembly should consider extending the \$450 per pupil allocation to all community schools. However, a revenue stream to support the program must be identified prior to establishing the program in Ohio law.**

**ODE should support legislation that would exempt individual property holders who rent or lease to community schools from property taxes. The savings from property tax “credits” could be used to lower the rent or lease cost to the community school. The Legislature should consider using the Florida law as a model in reducing the lease cost burden on community schools. (See community school law.).**

## **B. Selecting and Preparing a Building for School Operation**

Finding existing space that is built for educational purposes is difficult since traditional school districts often do not have an inventory of safe, inhabitable vacant school buildings. As a result, community schools often occupy non-traditional school facilities such as office space and church buildings. Ohio lawmakers recently approved a measure that requires districts to give community schools the first opportunity to buy school buildings that traditional districts no longer want or need. Other charter school states, such as Arizona, New York, and South Carolina, require the state department of education to annually publish a list of vacant and unused portions of buildings that are owned by the state or by school districts that may be suitable for a charter school operation.

Once a potential building site has been found, there are a number of things that should be taken into consideration prior to entering into a lease or purchase agreement, including local building and zoning codes, permits, and approval processes. This information is available from the local planning and zoning department. Although ODE counsels community school developers to liaison with the local building departments, most community school developers are unsure how to approach facilities issues with local authorities. Some schools have entered into lease agreements without taking zoning and building codes into account, and as a result, they have spent significant amounts of money completing extensive renovations, which, in some cases led the school to close its doors. OSO asserted that they can not provide building code information, although community schools are usually held to the Ohio Basic Building Code, which is available to all Ohio residents through the Ohio Department of Commerce, Industrial Compliance Division, Board of Building Standards.

Finally, community school operators do not receive adequate information on the types of questions that should be considered when selecting a facility. According to the Ohio Legislative Office of Education Oversight report, “Community Schools in Ohio: Second-Year Implementation Report, Volume I: Policy Issues,” many second-generation community school operators requested a manual

on finding a facility and understanding building codes. ODE has not provided community schools with a manual covering these topics. OSO also does not cover facilities selection and preparation as part of scheduled training and workshops. However, a national resource guide, *Charter School Facilities- A Resource Guide on Development and Financing* (May 2000), details how to select and finance a facility. The guide also explains how to draft a business plan, develop a needs assessment, and determine when to renovate.

#### **Recommendations 94-98:**

- 94. ODE should provide community school applicants and developers with information regarding facility selection and financing options. The information could be posted on ODE's community school website so it can be easily accessed by anyone wanting the information. The website should contain information on conducting a facility needs assessment; ways to identify possible school sites; factors to consider when evaluating the site; and information on the building requirements the school will need to conform to, including: local zoning ordinances and building codes, Americans with Disabilities Act requirements, insurance considerations, health and safety-related requirements, lighting requirements, and space requirements. Resources and sources of funding should also be included.**
  
- 95. ODE should work in conjunction with the Ohio Department of Administrative Services to annually publish a list of vacant and unused portions of buildings that are owned by school districts or the state that may be suitable for the operation of a community school. ODE should make the list available to community school applicants as well as existing community school developers. The list should include the address of each building, a brief description of the site, and the name of the owner of the building.**
  
- 96. Prior to looking for suitable space for a school, the community school founder should complete an initial needs assessment. To ensure the needs assessments are completed, sponsors should consider having community school applicants complete the initial facilities needs assessment as part of their application. The assessment should include the following questions:**
  - **What is the educational vision of the school, and how will the facilities reflect that vision?**
  - **How many students does the school have or plan to enroll?**
  - **Is the student population expected to change significantly in the next three to five years?**
  - **What kind of classroom space will allow the school to meet its educational goals?**
  - **What other kinds of space will be needed (recreation area, art, library, science,**

**lunchroom, etc.)?**

- **What kind of facilities would be ideal to have near the school (parks, libraries, performing arts centers, etc.)?**
- **What technological capacity does the school facility need to have?**
- **What transportation options will be available to the students?**
- **How much total space is needed for the interior of the community school?**
- **How much total space is needed for the exterior of the community school?**

- 97. Sponsors should require community school operators to employ a process for identifying suitable facilities and selecting appropriate facilities for the community school. As a component of the facility selection process, community school operators may require the services of professionals, such as a real estate broker and/or engineer.**

**A real estate broker can provide valuable experience in identifying facility locations, negotiating leases and purchase contracts, and obtaining financing for renovation and development. Community school developers in Cleveland and Columbus have used professionals in this capacity with success. A do-it-yourself approach to obtaining a facility can lead to mistakes which can cause substantial cost increases or delay the opening of a school. Using a professional to negotiate for space helps ensure the school developer does not over pay for the space rented or the property purchased.**

**After a potential site has been found, and before a lease or purchase agreement is entered into, the building should be assessed by an architect or engineer to determine the site's potential for conversion to an educational facility. These professionals are knowledgeable about local rules, zoning codes, and regulations regarding educational facilities, and they are familiar with the life, health, safety, and accessibility issues required in any conversion space.**

**Regardless of the approach used in identifying and selecting facilities, the sponsor should monitor the selection and acquisition process. Furthermore, the sponsor should ensure that the community school has obtained adequate facilities prior to the start of the school year.**

- 98. OSO should include the Ohio Basic Building Code (OBBC) in its workshops so that community school developers are more familiar with the facility health and safety requirements in Ohio. OSO should contact the Ohio Department of Commerce to determine if an expert from their agency could provide training on the OBBC.**

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# Transportation of Community School Pupils

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## **Background**

Ohio community schools were established to provide parents with academic choices, innovative educational opportunities, and to provide the education community with the chance to establish targeted educational programs. In offering such programs to students in Ohio, including disadvantaged or at-risk youth, reliable transportation to and from school is imperative. The Ohio General Assembly provides for such transportation through Ohio Revised Code (ORC) §3314.09, stipulating that traditional school districts are required to provide transportation for community school students. However, the General Assembly did not provide additional funding to traditional school districts to operationalize the new transportation requirements.

A traditional school district must provide transportation to its native students enrolled in a community school located in that district or another district (ORC §3314.09). Furthermore, a board of education can pay a parent or guardian to transport a pupil to and from a community school when using district transportation is impractical. According to the ORC, the amount of this payment in lieu of transportation should not exceed the State average transportation cost per pupil. To commence payments in lieu of transportation, the traditional school district board of education must first determine whether transportation is impractical. If the parents disagree with the payment in-lieu of transportation, a mediation takes place and a recommendation is made to the State Board of Education (OSBE), request the agreement of the parents. However, ODE officials have stated that they do not have the statutory authority to enforce the ORC requirements or direct the traditional school district to provide transportation.

House Bill (HB) 94 amends original community school transportation statutes through ORC §3314.091(A), allowing the community school and traditional school district to enter into a contract for the community school to transport its students. HB 94 provides a funding rate of \$450 per student if the community school transports its own students. If a community school enters into a transportation contract to transport community school students, transportation must be provided for all students in grades kindergarten through eighth grade who live more than two miles from the school and all handicapped students, as stipulated in both the ORC and the traditional districts transportation policies. However, according to community school officials, the funds provided in HB 94 to fund transportation by community schools are insufficient to cover transportation expenditures.

Many community schools have stated that traditional school districts are unresponsive, late, or remiss in their statutorily-defined responsibility to provide transportation to community school students. A number of community schools have paid for transportation from their operating funds, even though the ORC requires traditional school districts to transport most eligible community

school students. In some instances, traditional districts have refused to transport any community school students. Also, the cost of providing transportation prohibits the ability to effectively provide transportation to community school students. Community schools providing transportation have estimated that as much as one-third of expenditures are for transportation. The cost to provide transportation draws valuable resources away from educational services.

Community schools are often unable to provide ridership lists to traditional districts within district-defined time frames. In addition, traditional districts have remarked on the high cost and logistical difficulty in transporting community school pupils. ODE has not developed a comprehensive policy to address the transportation issue, and has not intervened in a majority of traditional district and community school disagreements over transportation needs. ODE representatives also stated that additional funding has not been allocated to traditional school districts by the Legislature, even though the traditional districts may have experienced less efficient routing and increased costs for transporting the community school students to dispersed locations. Funding is determined by the number of students transported (which remains stable or may decrease), mileage, and the percent of students transported. This data is evaluated against the previous year data using a regression equation to identify the maximum amount of reimbursement per student allowable for transportation. According to legislation, the reimbursement should be 60 percent of the traditional school districts' transportation expenditures. However, if the traditional school district does not transport students efficiently (as determined by the equation), the reimbursement could be less than 60 percent of transportation expenditures.

The Legislative Office of Education Oversight (LOEO) *Community Schools in Ohio: Second-Year Implementation Report* recommended the General Assembly develop an alternative arrangement for transporting community school students. LOEO recommended ODE require traditional school districts to separate community and traditional school students when reporting transportation data to better ascertain the cost of transporting community students. Beginning in FY 2000-01, ODE required traditional school districts to isolate and report the number of students, buses, and daily miles traveled. Despite LOEO's recommendations, transportation continues to be a major problem for both community schools and traditional school districts, contributing to the strained relationship.

## **Findings and Recommendations**

### **A. Service Levels to Community Schools**

In coordinating transportation duties with traditional school districts, community schools often must alter their start and end times and dates of operation to meet the timetables and calendars of traditional school districts. Community schools also face other challenges when coordinating transportation with traditional school districts including the following:

- Deviating from the traditional school districts' calendar could result in charges for transportation.
- Establishing holiday, break, and summer vacation schedules to match the traditional school district to receive transportation.
- Receiving the last daily schedule available, after the traditional district's schools and neighborhood non-public schools have selected daily schedules.
- Refusing to transport students across enrollment zones established by traditional school districts.
- Paying for transportation without reimbursement from ODE.
- Student withdrawals because of inconsistent or non-existent student transportation service.

In response to traditional school district scheduling constraints, some community schools have refused transportation. However, when transportation is refused, community school parents are not offered payment in lieu of transportation.

In the case of non-public schools within traditional school districts, non-public schools' schedules and calendars have been in place since traditional districts began providing transportation to non-public schools. When transportation was first extended to non-public schools, they experienced similar difficulties with scheduling and service levels. ORC §3327.01 requires traditional school districts to transport non-public school students according to the non-public school's established daily schedules and annual calendars. Logistics were worked out through negotiations with the traditional school district.

In isolated cases, traditional school districts refuse to transport any community school students or refuse to transport students between district-established enrollment zones, even though the ride may be below the 30-minute threshold. Such incidents exacerbate tensions between traditional and community schools. Also in such cases, the traditional school district is in direct violation of ORC requirements. Several community school officials reported parents who want to enroll students in a community school but transportation problems deter them. In other cases, parents enroll the student but ultimately withdraw them due to transportation limitations. Community schools report the following incidents with traditional school transportation which have discouraged enrollment:

- Students not picked up from the bus stop;
- Students on the bus for an hour or more to travel a few miles;
- Students left alone at bus stop; and
- Students as young as five years using public transit to get to and from school.

These problems have resulted in as many as 70 students withdrawing from community schools in the Cincinnati area alone. Even though such incidents may be isolated, coordination issues that affect student safety are of paramount importance.

Several national reports identified cases where traditional school districts have intentionally provided dissatisfying or substandard transportation services to charter schools to deter enrollment to community schools. This practice ultimately endangers the welfare of charter school students through safety issues associated with inconsistent transportation and through the academic impact created when a student withdraws from a charter school.

In an effort to resolve such coordination problems, some community school officials have suggested the General Assembly set up a funding source to enable community schools to provide their own transportation. Other community school officials have suggested the development of legislation that would require traditional school districts to provide transportation to community school students on the same basis that it provides transportation to its own students and non-public schools, as stipulated in ORC §3327.01.

Despite the problems encountered by community schools and the traditional school districts providing transportation services, several innovations in transportation services have been used to meet community schools' transportation needs. The following are examples of such services:

- Lucas County sponsored community schools' contract with Lucas County Education Service Center for transportation, which relieves the local school districts' transportation resources and proves to be beneficial because service is county-wide.
- Parents have hired private transportation companies to transport community school students at their own expense.
- Akron Public Schools obtained additional buses to resolve some community school transportation problems and Elyria Public Schools have designated several buses to transport community school students.
- Youngstown City Community School and Summit Academy Elementary have developed amiable relationships with traditional school districts and have not experienced any transportation problems
- Some traditional school districts have established agreements within regional areas to share resources to provide transportation to students across district boundaries.
- Minnesota provides a request cut off date for community schools for transportation and the traditional school district is then mandated to provide the transportation although the charter school may have to change operating hours to those stipulated by the traditional school district.

Policies implemented by other Charter School Law states to resolve transportation issues vary greatly. Connecticut, Indiana, and Massachusetts have policies similar to Ohio's, in that the traditional school district is responsible for transporting the charter school students, but each state's policies have benefits and drawbacks. In some of these states, transportation is the responsibility of the student's district of residence. In other states, it is the responsibility of the district in which the charter school is located.

In California, Delaware, Minnesota, New York, North Carolina, and South Carolina the charter school is responsible for determining how its students will be transported. Charter schools in these states have the option of providing their own transportation, contracting with the local traditional school district or for private services. Transportation funding is included in the states' operation funding formula for charter schools. Delaware has determined that student transportation would be fully funded for all schools, resolving the issue of increased costs. However, the community schools and traditional school districts cannot agree on schedules.

Arizona, Florida, Michigan, and Texas do not require the traditional school district or the charter school to transport charter school students. Enrollment in a charter school is viewed as a choice which requires the parent to transport the child to and from school. This policy also increases charter school accountability, allowing parents to determine if the education provided in the charter school exceeds that in the traditional school, and is therefore deserving of their efforts to transport their child to school. **Table 6-1** illustrates transportation legislation within Charter School Law states.

**Table 6-1: Transportation Legislation in Charter School Law States**

Transportation Legislation	State	#	%
<ul style="list-style-type: none"> <li>The state does not require transportation for charter school students, but some charter schools provide transportation</li> <li>If authorized by local school boards, transportation may be provided by the traditional district; other charter schools receive state transportation aid to provide transportation for students in Arizona</li> <li>May be provided by charter school for students within a reasonable distance of school and must not be a barrier to equal access in Florida</li> <li>If transportation is provided for any students it must be provided for all in Michigan</li> </ul>	AZ, FL, MI, TX	4	25.0%
<ul style="list-style-type: none"> <li>Specified in charter</li> <li>California Department of Education reports charter school students are entitled to transportation</li> <li>Transportation requirements are the same for private schools in New York</li> </ul>	CA, MO, NY	3	18.8%
<ul style="list-style-type: none"> <li>For students residing in the traditional school district in which the charter school is located, transportation is provided by traditional school district unless other arrangements are specified in charter</li> <li>Traditional school districts may provide transportation for resident students attending a charter outside the district and will be reimbursed for reasonable costs by the state</li> </ul>	CT	1	6.3%
<ul style="list-style-type: none"> <li>Charter school students, like regular traditional school district students, are eligible for reduced public transportation fares</li> </ul>	DC	1	6.3%
<ul style="list-style-type: none"> <li>Provided by traditional school district or charter school; if charter school provides transportation, it receives state transportation aid</li> </ul>	DE	1	6.3%
<ul style="list-style-type: none"> <li>Traditional school district must provide transportation</li> <li>The cost of services provided by traditional school district may not exceed 103 percent of the actual cost in Indiana</li> <li>Transportation requirements pertain to students in traditional school district where charter school is located and parents are reimbursed for transporting students to charter schools outside the district in Massachusetts</li> </ul>	IN, MA, <b>OH</b>	3	18.8%
<ul style="list-style-type: none"> <li>Provided by traditional school district or by charter school for students in traditional school district where charter school is located</li> <li>If charter school provides transportation, it receives state transportation aid</li> <li>Charter schools may reimburse parents outside traditional school district for transportation expenses if the family is below Federal poverty level</li> </ul>	MN	1	6.3%
<ul style="list-style-type: none"> <li>Charter schools must provide same transportation assistance as traditional district schools</li> </ul>	NC, SC	2	12.5%

Source: The Center for Education Reform

Some form of traditional school district transportation is used in 40 percent of the examples. In Arizona, Delaware, Minnesota, North Carolina, and South Carolina, the state pays for the charter school to operate its own transportation. The transportation funding systems in many Charter School Law states resemble Ohio's in that traditional districts are reimbursed approximately 65 percent of the cost of transporting students and, if the charter school provides transportation, the funding is deducted from the traditional districts reimbursement. Ohio's transportation system for community school students follows the model used in most states, but Ohio has not established a successful solution to address all transportation problems. Increasing ODE's role in assisting community and

traditional schools with transportation issues could speed the resolution of transportation disputes and logistical problems.

HB 364, introduced in the fall of 2001, contains a provision which requires traditional school districts to meet the scheduling needs of community schools and changes the manner in which transportation is funded between traditional districts and community schools. The proposed legislation contains the following options:

- Permits the community school to charge the student's guardian the difference between the actual cost of transportation and the funding received from the state to provide transportation.
- Requires traditional school districts providing transportation for community school students to provide transportation in accordance with daily and annual instructional schedules of the community school to ensure students are present and on time during times the community school is open for instruction similar to current law for non-public schools.
- Identifies the community schools' governing authority to have the sole responsibility to set daily schedules and annual calendar as long as they conform to state law and the community school contract.
- Permits a traditional school district to use transportation funding from the state for the acquisition of school buses to transport community school students.
- Permits parents of Post Secondary Enrollment Options students to apply to the community school's governing authority for a full or partial reimbursement for transportation, if the community school provides transportation for its students in grades 9 through 12.

Although the proposed changes address the problems encountered by community schools, the legislation does not provide additional funding (funding is deducted from the traditional school districts' transportation reimbursement) or address the problems encountered by traditional school districts in providing transportation services as discussed in section **B. Transportation Logistics for Traditional School Districts and Community Schools**. Also, it appears the potential concerns of non-public schools have not been closely examined. If additional funds and entitlements are extended to the community schools, non-public schools may request similar consideration.

**Recommendations 99-102:**

- 99. ODE should provide all traditional school districts and community schools with a memorandum clarifying current legislation on transporting community school students. The memorandum should reiterate traditional school districts' responsibility to transport community school students living within district boundaries to and from school. The memorandum should also clarify that transportation is required to be provided by the traditional school district in cases where the students attend a community school beyond the traditional school district boundaries but is within the travel time of 30 minutes or less.**

**All communication from ODE on issues of transportation should be provided in writing to both traditional school districts and community schools, be consistent in identifying community school legislation, and have a contact name in the event traditional school districts or community schools need future clarification. Providing information in this manner would alleviate confusion when arranging community school transportation.**

- 100. ODE should ensure traditional school districts adhere to the guidelines for transportation of community school pupils as outlined in the ORC. Community school legislation has outlined the manner in which transportation is provided for community school pupils. ODE should, by rule or by legislation, develop and implement penalties for traditional school districts that do not fulfill their transportation obligations.**

**ODE should consider options such as withholding transportation funding to non-compliant traditional school districts. If ODE does not have the authority to withhold funding, it should seek statutory authority to impose funding penalties on non-compliant traditional school districts. Transportation funding should be withheld until the traditional public school district fulfills its statutory duties to provide transportation to community school pupils. If withholding transportation funding is not feasible, ODE should consider suspending or revoking the licenses of superintendents of traditional districts who do not comply with ORC requirements to transport community school pupils.**

- 101. Traditional school districts should include community schools in negotiations to determine daily schedules and calendar availability. These types of discussions were conducted with non-public schools in prior years. Community schools should be provided a similar opportunity to negotiate and subsequently adjust their daily schedules and annual calendars to coincide with the negotiated transportation arrangements. This should be done with an understanding of the need for both community schools and traditional school districts to compromise in attempts to reach an equitable agreement.**

- 102. Using data collected during FY 2001-02, ODE should compute the actual cost to transport community school pupils by October of 2002. The actual cost to transport community school pupils should be provided to traditional districts to offset increased transportation costs. These funds should be dedicated to providing transportation to community school pupils. Traditional school districts, community schools and sponsors should consider contracted busing, educational service center vehicles, or public transportation to meet the community schools' transportation needs.**

**If traditional school districts are unable to fulfill their statutory duties in transporting community school pupils, the actual cost for transportation should be paid directly to**

**the community school. While the actual cost for transportation may not fully cover the transportation costs for community schools because of an inability to use economies of scale, the funding could help offset community schools' transportation costs. Furthermore, transportation funding for the community school program would allow community schools to pool transportation resources and potentially provide more efficient transportation options to their students.**

## **B. Transportation Logistics for Traditional School Districts and Community Schools**

Transportation options outside of traditional school district yellow-bus service are available to community schools. Traditional and non-public schools use several additional forms of transportation to meet their students' transportation needs. **Table 6-2** identifies the methods of student transportation for all types of schools in Ohio.

**Table 6-2: Methods of Student Transportation**

Type of Transportation	Community School		Traditional		Non-Public	
	Students	% of Students	Students	% of Students	Students	% of Students
Board-owned Bus	4,515	27%	1,063,619	58%	98,625	41%
Contract Bus	2,635	16%	54,134	3%	3,196	1%
Public Transit	1,961	12%	33,965	2%	7,376	3%
Payments In Lieu of Transportation	104	1%	414	<1%	21,907	9%
Board-owned Vehicle	5	<1%	147	<1%	38	<1%
Contract Vehicle	9	<1%	705	<1%	239	<1%
Number of Students not Receiving Transportation	7,390	44%	666,165	37%	111,249	46%
<b>Total</b>	<b>16,619</b>	<b>100%</b>	<b>1,819,149</b>	<b>100%</b>	<b>242,630</b>	<b>100%</b>

**Source:** ODE T-1 Form FY 00-01 raw data

**Note:** Community school transportation data may not include all community school students. Payments in lieu of transportation are not included.

According to **Table 6-2**, community schools use contracted and public transit for a disproportionate number of students when compared to traditional and non-public schools. This may be attributed to the large percent of community schools located in urban areas where public transportation is more accessible. The large number of students using public transit and contracted busing services may be

indicative of community schools' response to the transportation concerns highlighted earlier in this report. However, a majority of community schools serve elementary and at-risk student populations. Using subsidized public transportation may not be the safest alternative for these students. Potentially, the payment in-lieu of transportation option should be expanded in community schools, especially when compared to payment in-lieu use in non-public schools. However, utilization of the payment in-lieu of transportation option may not be feasible because of issues like student's place of residence, student's special needs, student's socioeconomic backgrounds and the location of the school.

The high percentages of students for all school types who do not receive transportation is also notable. As stated previously, it is imperative for many community school students to have safe and reliable transportation to and from school. Because of the unreliability of district transportation, some community schools have required parents to transport their student to and from the community school but have not offered payments in-lieu. Even though creative means to avoid transportation conflicts between community and traditional school districts exist, a large number of community school students do not receive any form of student transportation suggesting only some community schools rely on traditional school district transportation services. When a community school must rely on traditional school district transportation, the logistics of transporting students to certain geographic areas creates an additional strain on the traditional school district's transportation system. Some of these constraints are described below:

- Adding 42 buses to Cleveland Municipal School District's fleet exclusively for community school transportation would not eliminate the need to alter the daily schedules, especially considering the additional costs incurred with extra drivers and bus maintenance, as is the case in Delaware.
- Changing community school facility locations creates additional costs in the routing process depending on the new location and the distance between the students and the community schools.
- Enrolling community school students after routes have been determined makes integrating them into existing routes difficult. Often, the traditional district must add new students to existing routes or establish new routes.
- Increasing costs occur when a small number of students have to be bussed long distances.

The size of the traditional school district and its transportation capabilities affects the ability to meet community school transportation needs. Further, the number of community schools and the traditional school districts from which they enroll students could potentially create the greatest impact because small groups of students may be bussed across the district of residence along several routes serving several different community schools. According to ODE, community school and traditional school district officials, this causes logistical dilemmas for the district of residence. These impacts are likely greater on traditional districts that serve large numbers of community schools. Data for the frequency and distance traveled for community school students are not readily available

to closely examine this problem and develop a comprehensive resolution. **Table 6-3** identifies the number of community schools within traditional school districts.

**Table 6-3: Number of Community Schools By Traditional School District (FY 2001-02)**

Urban School District	Number of Community School
Cleveland Municipal School District	16
Cincinnati City Schools	15
Dayton City Schools	13
Toledo City Schools	12
Columbus City Schools	11
Akron City Schools	8
Youngstown City Schools	4
Parma City School District	3
Lorain City School District	2
Maumee City School District	2
Middletown City School District	2
Springfield Local School District	2
Elyria City School District	1
Canton City School District	1
Lima City Schools	1
Marion City School District	1
Mt. Healthy City School District	1
Oregon City School District	1
Portsmouth City School District	1
Warren City Schools	1
Xenia City School District	1

Source: ODE Office of School Options

As illustrated in **Table 6-3**, a traditional school district may be required to transport students to as many as 16 community schools depending on the choice of the parent. Also, urban districts which cover large, populous territories, serve the greatest numbers of community schools under the current statute. Because these districts are fairly large, the drive time and mileage could potentially increase the cost per student and the cost per mile while decreasing efficiency. Similarly, one community

school may have a number of school districts transporting students to its facilities, depending on which districts may fall within a 30-minute radius. Negotiating with several traditional school districts for daily schedules and coordinating the pick-up and arrival of students with several traditional school district transportation departments presents additional logistical challenges for both the traditional school districts and community schools. Furthermore, data identifying the number of students transported out of their neighborhood, the average miles traveled outside of the neighborhood and the method of service, and the number of students bussed outside of their district of residence to attend a community school has not been collected. This data is necessary to achieve an accurate depiction of community school student transportation requirements on traditional districts and develop a workable solution.

Cleveland Municipal and Akron City School Districts have developed preliminary methods to address some of the logistical problems encountered in the urban districts when serving community schools. Cleveland Municipal School District has two community schools participating in clustering, a process in which students from two different community schools ride together on the same bus. The bus then drops the students at their respective schools. This reduces the coordination required by each of the community schools and the traditional school district and also potentially reduces Cleveland Municipal School District's costs to transport these students by restricting the route needs to a single yellow bus.

The Akron City School District runs a hub system in which students from outlying areas attending community schools are bused to a central transfer location downtown, and then transported to their respective community schools. If a bus transporting a community school student passes the student's community school, the bus driver stops to deliver the student to the community school. This hub approach and additional contracted buses helps Akron coordinate the transportation of community school students. Specific routes are assigned from the hub to the community school which reduces the number of buses serving each community school. In contrast, a traditional district not using specialized routing, such as Dayton City School District, continues to experience numerous transportation complications.

Traditional school officials noted that, with minor changes, they could increase and improve service to community schools if community schools assisted in the following areas:

- Notification of a community school's intent to operate by January of the year the school will open (approximately the same time a school would receive its *Letter of Approval to Operate*).
- Notification of a community school's transportation needs and location as identified in the contract by March of the year the school will open.
- If transportation is needed, notification of the number of students needing transportation by May of the year in which the school will open.

Traditional school transportation officials also indicated they do not receive notification of a community school's intent to operate or of its transportation needs until August or September. Late notification inhibits the traditional school district's ability to plan routes or to address driver needs.

**Recommendations 103-106:**

- 103. The assistant director of the Office of School Finance, Pupil Transportation Section, should serve as a mediator and facilitator between community schools and traditional school districts. The assistant director should be responsible for achieving resolutions to transportation issues between community schools and traditional school districts.**

**When transportation is impractical, traditional school districts should use payments in lieu of transportation to fulfill their statutory responsibilities. This option could be used specifically to provide a means of transportation to community school students who reside in outlying areas of the traditional school district and areas where the traditional district has not established a bus route. ODE should consider seeking statutory changes to increasing the payment in lieu of transportation to an amount equal to the actual cost to transport the student through the traditional school district.**

**Administrative hearings for payments in-lieu of transportation should be provided to parents of community school pupils who are not transported by the traditional school district within two weeks of the determination by the traditional district not to provide transportation. Also, the assistant director should facilitate the scheduling of administrative hearings for parents of community school students who are seeking payments in-lieu of transportation.**

- 104. ODE should consider providing community schools and traditional school districts more options to provide transportation for community school students. These options could include the following:**
- A. Allowing the community school to contract for transportation and providing a reimbursement comparable to the amount received per student for transportation by the traditional school district.**
  - B. Identifying other appropriate resources for providing community school students transportation potentially through the County Education Service Centers (ESC) similar to the method used in Lucas County, using transportation services offered through other county agencies such as mental health agencies or head start programs, or establishing a reduced fare for public transportation.**
  - C. Establishing a request for transportation deadline to determine the financial and operational impact of community school transportation needs on the**

traditional school districts. Developing transportation deadlines would be contingent of the development of a strong contract processing timeline (see monitoring and oversight section).

- D. Providing traditional school districts an additional reimbursement for transporting resident students to community schools outside the district and/or fully reimburse parents for transportation expenses if the family lives outside the traditional school district in which the community school is located and is below the Federal poverty level.**
- 105. Sponsors should assist community schools in obtaining and maintaining appropriate facilities with consideration for transportation requirements. When determining if a facility is appropriate for a community school, ODE and other sponsors should examine the community school's plans for transportation and the feasibility of those plans as they relate to the location of the facility. Transportation plans should be included as a component of the charter agreement and should be verified for feasibility by the sponsor.**
- 106. ODE should ensure all traditional school districts receive notification by the end of January of community schools that have received *Letters of Approval to Operate*. Community schools and their sponsors should be provided detailed training on the time frames and the type of information required by traditional school district transportation departments in order to include students on bus routes. Receiving this information from ODE would assist community schools in knowing the process to establish transportation, potentially improving the relationship between traditional school districts and community schools and aide the traditional school district to better serve the community school's transportation needs.**

### **C. Transportation Costs and State Funding**

Student transportation has been one of the most problematic financing issues faced by community schools, often causing a barrier to school choice. Several funding resources have recently been extended to community schools. However, the manner in which these are to be funded has not been identified and some flaws in the amounts of support offered appear to remain unreconciled. Beginning in FY 2002, community schools can contract for transportation and receive reimbursements of \$450 per student from the State for contracted busing. Recent legislation identifies the source of the \$450 as being derived from current per-pupil State funding for traditional school districts. However, most community schools estimate that it costs \$750-1,000 to transport each student and this cost could potentially increase when considering the transportation needs of community schools. ODE identified the actual cost to transport students on a per-pupil basis as \$544 and the percentage reimbursement offered through the current State reimbursement as 68 percent.

Community school officials expressed concern that their current funding would not allow them to cover any additional costs not reimbursed by the State.

In prior years, traditional school districts reported transportation expenditures and riders for community schools as an aggregate with their own students within their transportation expenditures. Non-public school students were reported separately. This practice made it difficult to identify the actual cost to the district for transporting community school students. ODE collects data on transportation expenditures on a per unit (per bus) basis and cannot separately identify the costs associated with community school transportation. The operating unit reporting methodology prevents traditional school districts from reporting community school costs separately because traditional, non-public and community school students ride on the same buses. Furthermore, the ODE funding methodology does not include a mechanism for funding individual bus purchase requests which may be required to meet the transportation needs of community schools. ODE representatives and traditional school district officials have theorized that transporting community school students is more costly because of the distance traveled to get students from designated bus stops to the community school and the low ridership on these routes.

ODE provides transportation funding to traditional school districts according to a formula which provides each district a reimbursement of approximately 60 percent of the previous year expenditures if the traditional school district is providing efficient transportation. However, ODE officials were not able to explain the evolution or source of the regression equation constants used to determine reimbursement amounts. Furthermore, the manner in which the State share has been determined and its relation to actual transportation costs was not able to be explained. Transporting community school students separate from traditional school students would entail the purchase or lease of additional buses. Further, urban districts use economies of scale to lower bus purchase and repair costs, a cost savings that would not be available to smaller community schools. **Table 6-4** illustrates the average costs and State reimbursements for the 21 urban school districts in Ohio.

**Table 6-4: Transportation Costs Within Large Urban School Districts**

Costs	Total Urban School Districts	Big 8 Urban School Districts	Small 13 Urban School Districts
Average Total Cost	\$4,896,975	\$10,551,987	\$1,416,967
Average State Reimbursement	\$1,983,616	\$3,937,987	\$780,926
Average Cost Not Reimbursed	\$2,913,359	\$6,614,001	\$636,041
Average Percent not Reimbursed	46%	59%	37%
Average Cost per Pupil	\$461	\$518	\$426
Average Cost per Pupil not Reimbursed	\$209	\$307	\$149
Average Cost per Mile	\$4.67	\$4.11	\$5.02
Average Cost per Mile not Reimbursed	\$1.99	\$2.43	\$1.71

Source: School Year 1999-2000 SF3 Financial Reports and T1 and T2 forms for transportation for the 21 Urban School Districts.

According to **Table 6-4** and ODE financial reports for transportation, it costs approximately \$461 per student and \$5 per mile for transportation in Ohio urban school districts. Currently, traditional school districts do not lose transportation funding when they do not provide transportation to community school students. However if the community school and traditional school district enter into an agreement for the community school to provide its own transportation, \$450 for each student transported or a maximum of \$7.5 million (if all students enrolled in FY 2000-01 were transported) by the community school will be deducted from the student's district-of-residence transportation funding and paid to the community school. If the traditional school district provides the transportation, the funding would remain with the traditional school district. Additionally, the community schools are provided the authority to enter into such an agreement. Therefore, a traditional school district could have a number of community schools deducting \$450 per student from their transportation revenue. This could potentially reduce funding for the traditional school district beyond the per pupil reimbursement amount because traditional school districts are receiving only approximately 54 percent of their per-pupil expenditures.

In some instances, additional buses are needed by the traditional public school district to accommodate community school pupils. Traditional school districts can purchase buses to serve non-public school students through State subsidy funding when the number of students transported has increased over a three year period. This funding is not available to traditional school districts to purchase buses to transport community school children. However, proposed legislation would allow traditional school districts to use State funding to purchase buses to serve community school students.

Another option available to community schools to ensure transportation for their students is covered in ORC §3327.13. The ORC allows the board of education that owns and operates buses to contract-out bus leases to non-public schools to transport non-public school students. Community schools could be eligible to contract with traditional school districts or ESCs to lease buses for their transportation needs.

In FY 2000-01, ODE began tracking the number of community school students and the method used to transport them. **Table 6-5** illustrates the raw data collected for all types of students transported by parents who received payments in lieu of transportation as of October 2001.

**Table 6-5: Payments In Lieu of Transportation To Parents October 2001**

Type of School	Number of Payments In Lieu of Transportation	Percent of Payments In Lieu of Transportation	Total Costs for Payments In Lieu of Transportation
Community	104	1.14%	\$17,888
Traditional	414	0.04%	\$71,208
Non- Public	21,907	20.01%	\$3,768,004
<b>Total</b>	<b>22,425</b>	<b>N/A</b>	<b>\$3,857,100</b>

**Source:** Raw data from ODE revised T-1 form for FY 2001

Note: Total payment is based on the current payment in lieu of transportation of \$172 per student

According to **Table 6-5**, preliminary data show community schools seldom use payments in lieu of transportation. Traditional school districts have cited the following reasons for offering the in lieu of transportation option:

- Conflicting daily schedules
- Increasing costs for transportation
- Overcrowding on buses

Often, community school parents do not receive payments in lieu of transportation although they transport their children. Some reasons that parents do not receive payment in lieu of transportation include the following:

- Parents decline payments in lieu of transportation and are awaiting an administrative hearing.
- Parents have collaborated to purchase transportation services.
- Parents with students attending community schools have been told that they are responsible for reliable transportation for students.

A limited number of community schools have included parental transportation in their enrollment policy. In other words, if parents choose the community school, parents are responsible for

transporting the student to and from the community school, similar to practices in Texas. While this relieves the school of potential transportation conflicts, this may also reduce opportunities for at-risk students to attend community schools targeting at-risk populations.

The transportation challenges faced by traditional and community schools sometimes result in decreased revenue available for educational and instructional purposes. Transporting community school students may, for a variety of reasons, be more expensive than transporting traditional school district students to neighborhood schools. However, traditional and community schools have developed a number of means to meet these additional costs which include the following:

- Reviving Cleveland Municipal School District buses from the desegregation bus fleet to provide transportation to community school children;
- Informing community school parents at the time of enrollment to be prepared to provide transportation; and
- Utilizing public transportation and payments in lieu of transportation of \$172 per student for transportation.

Although some viable alternatives exist, these have not been well publicized among community and traditional schools. Also, in each solution, ODE has not played a significant role. Recently, ODE convened a task force for community school transportation to address the challenges faced by community schools and traditional schools. The goal of the task force is to determine what resources are needed to minimize transportation barriers and identify options in order to recommend achievable resolutions. ODE needs to assume a leadership role in assisting community and traditional schools with transportation issues to speed the resolution of transportation disputes and logistical problems.

#### **Recommendations 107-109:**

- 107. ODE's Office of School Options (OSO) should conduct a seminar for community schools to inform officials of the necessity to provide accurate and timely information for students in need of transportation. Additionally, OSO and the Office of School Finance, Pupil Transportation Section should encourage the use of automated routing and scheduling software in traditional school districts and provide technical assistance in using the routing software. Automated routing software would help traditional districts provide more efficient transportation routing and scheduling for community school students and potentially reduce the amount of drive/ride time and associated costs.**
- 108. The assistant director of the Office of School Finance, Pupil Transportation Section and OSO should investigate the feasibility of helping community schools coordinate transportation services among several community schools at the city or regional level.**

**Combining community school transportation resources to serve a larger number of students from common areas would allow for the development of economies of scale and enhance routing capabilities.**

- 109. The Office of School Finance, Pupil Transportation Section should evaluate the feasibility of providing additional buses to traditional school districts that may need them to transport community school students. Extending the non-public bus purchase subsidy to community school students may aid traditional school districts in better coordinating transportation services across wide geographical areas. Furthermore, the method of determining the need for additional buses should be revised using miles traveled to address the vast service area of community schools**

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## Appendix A: ORC Community School Exemptions and Requirements

**Table A-1: State Board Curricular and Educational Requirements**

ORC	State Board Educational Standards
<b>Requirements from Which Community Schools are Exempt</b>	
Chapter 3302	Educational Standards for school districts.
Chapter 3324	Identification of gifted children and development of service plan.
3301.07, 3301.0712 3301.0715	Minimum standards covering school curriculum; locally developed competency based programs; the assignment of professional personnel; instructional materials and equipment.; organization, administration, and supervision of schools; buildings and grounds (other than any building health and safety standards); admission and promotion of students; phonics instruction; instruction in energy and resource conservation; reporting requirements; ratios of teachers to pupils; receipt of services under any educational service center plan of service.; and ratios of support personnel to pupils.
3301.79	25 pupil class size limit for bilingual multi-cultural classes.
3301.17	Driver education course standards
3301.52- 3301.59	Preschool program standards and licensing (other than parental access rights).
3311.29	Requirement to maintain grades kindergarten through twelve.
3313.208	Latchkey program operating requirements.
3313.48, 3313.481	Standards for minimum school year and minimum school day (although the act requires community schools to provide 920 hours of instruction annually); requirement that education be provided free of charge (though the act prohibits a community school from charging tuition.). Also, Requirements related to alternative school calenders.
3313.531-3313.532	Adult high school continuation program requirements.
3313.534	Requirement for “zero-tolerance” discipline policies; requirement that Big 8 and certain other school districts establish alternative schools.
3313.536	Requirement to adopt comprehensive school districts establish alternative schools.
3313.56	Part-time schooling requirements for programs provided to students with age and schooling certificates.
3313.60	School course of study requirement (except that the parental right to excuse a child from certain instructional topics would continue to apply).
3313.603	High school curriculum requirements.
3313.604	Recognition of American Sign Language as a foreign language in schools.
3313.605	Implementation requirements for schools electing to offer community service education programs under federal law.
3313.608	“Fourth Grade Guarantee”
3313.609	Requirements to retain certain chronic truants.
3313.6011	Requirement that venereal disease education, which is a component of health education, emphasize sexual abstinence.

3313.62	Definitions of "school year," "school month," and "school week."
3313.63	Specification of school holidays.
3313.64-3313.65	School admission requirements related to the payment of tuition; tuition payment and charging requirements between districts.
3313.642	Requirements for certain districts to furnish needy students with materials used in a course of instruction other than the necessary textbooks or electronic textbooks.
3313.646	Prohibitions related to school district's establishing preschool programs.
3313.82 and 3313.83	Requirements related to a school savings program for students.
3313.841 and 3313.842	Requirements related to sharing certain services cooperatively with other districts and operating joint education programs.
3313.843	Requirements related to receiving services provided by educational service centers.
3313.85	Requirement that the probate court or in some cases the educational service center perform functions that a school board fails to perform.
3313.90, 3313.91, 3313.911	Vocational education requirement.
3317.15	Requirements specifying the number of speech-language pathologists and school psychologists a school district must hire.
<b>Requirements from Which Community Schools are Not Exempt</b>	
Chapter 3323	Requirements related to special education.

**Table A-2: Enrollment Requirements**

ORC	Enrollment Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3313.97	Intradistrict open enrollment requirements (except the requirement that parents receive information about the program- presumably in the district in which the community school is located- would continue to apply.)
3313.98 and 3313.981	Interdistrict open enrollment requirements (except the requirement that parents receive information about the program would continue to apply.)
3313.55	Requirements related to schooling for persons with tuberculosis.
3317.03 and 3317.033	Requirements related to reporting school average daily membership and maintaining school records.
3321.01-3321.12	Requirements related to the enforcement of student compulsory attendance law; requirements related to students with age and school certificates.
3321.13	Reporting requirements related to a child withdrawing from school; requirement to report certain withdrawn students to the Registrar of Motor Vehicles (except that, if a report on a child is made to the Registrar, the parent's right to a notice of the child's right to a hearing would continue to apply.)
3321.14-3321.38	Compulsory School Law enforcement requirements (except that the parent's right to certain warnings for failure to send a child to school, in 3321.19 and 3321.20, would continue to apply.)
<b>Requirements from Which Community Schools are Not Exempt</b>	
3321.01	Requirements relating to admittance of children to kindergarten and first grade.
Chapter 3365	Requirement to participate in Post Secondary Enrollment Options Program.
3365.041	Requirement that governing authority of a community school that expels a student notify the pertinent higher education institution that the student attends under the Post Secondary Enrollment Options Program.

**Table A-3: Organizational Requirements**

ORC	Organizational Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3313.01-3313.07 and 3313.18	Requirements related to the membership, organization, and operation of school boards.
3313.174	Requirement to appoint a business advisory council.
3313.20	Requirement to make rules necessary for the governing of employees, students, and other persons entering a school; to post the school entry rules; and to have a written policy on employees' attendance at professional meetings.
3313.35	Requirements concerning who is legal counsel for school boards.
3313.47	Vesting of management and control of schools in the board of education.
<b>Requirements from Which Community Schools are Not Exempt</b>	
	None

**Table A-4: Financial Management Requirements**

ORC	Financial Management Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
Chapter 135	The Uniform Depository Act related to the handling of public funds
3301.072 and 3301.073	Training requirement for school treasurers and business managers and required receipt of State Board technical assistance in school budgeting and finances.
3313.201	Requirement to purchase liability insurance (though the community schools law has its own provision requiring a community school to purchase liability insurance (3314.03(11)(b)))
3313.22-3313.32	Requirements related to the appointment, conduct, and duties of school district treasurers.
3313.372	Requirements related to installment payment contracts for energy conservation measures for school facilities.
3313.373	Requirements related to shared-savings contracts for energy savings measures for school facilities.
3313.41	Disposal of real and personal property requirements.
3313.44	Real and personal property tax exemption for school building projects.
3313.46 (and related sections in Chapter 153)	Competitive Bidding Law regarding school building projects.
3313.51	Check writing and deposit requirements related to school treasurers.
3313.483, 3313.487-3313.4810	Prohibition against closing schools for financial reasons; requirements and procedures related to school financial crises and resulting loans.
3313.811	Prohibition against the sale of anything for profit on school premises unless all profits are used for a school purpose or for a school activity.
3315.02-3315.05	Requirements related to the administration of funds for bond indebtedness (other than bonds secured by tax revenues, which community schools are prohibited from issuing.)
3315.062	Requirements related to the provision and funding of student activity programs,
3315.09	Limitation of only a one-year contract with a college or museum for the provision of instructional programs to students.
3315.091	Requirements and limitations related to contracting with a driver training school for the provision of driver education.
3315.10	Requirements related to the management and control of certain property held in trust for educational purposes.
3315.11-3315.14	Requirements related to establishing and administering a school building replacement fund.
3315.15	Requirements related to school board service funds for paying school board member's expenses in the performance of their duties.
3315.17	Requirement to maintain a Textbook and Instructional Materials Fund.
3315.18	Requirement to maintain a Capital and Maintenance Fund
3315.29-3315.31 (and 501.01-501.14)	Requirements related to common school funds.
3315.37	Requirements related to school district teacher education loan programs.

3315.40-3315.42	Requirements related to establishing and maintaining a school district education foundation fund.
3317.01	Requirements for the receipt of state education funds, including levying 20 mills, providing instruction for the minimum number of school days, and paying teachers according to the state minimum teachers salary schedule; requirement to comply with all school law and state board rules in order to participate in the state basic aid funding program.
3317.011-3317.0214	Requirements that school district be paid specific amounts of state funds (section 3314.08 establishes a method of calculating the amount of state funding for community schools.)
3315.08	Requirements related to the payment of employee salaries and the administration of a payroll account.
3317.04	Funding requirements related to the transfer of school district territory or the consolidation of districts.
3317.06	Funding, requirements, and prohibitions related to auxiliary services for chartered non-public schools.
3317.07	Funding for school bus purchases.
3317.08-3317.082	Tuition calculation requirements.
3317.11	Any requirements to receive services from an educational service center (formerly county school boards.)
3317.12	Non-teaching employee salary schedule requirement.
3317.13	State minimum teachers salary schedule requirement.
3317.14	School district teachers salary schedule requirement.
3317.62-3317.64	Requirements related to loans from the lottery profits education fund under certain circumstances.
5705.29	Requirements for school district Budget Reserve Fund ("Rainy Day Fund".)
5705.391	Requirements for five-year projections of school district revenues and expenditures.
5705.412	Requirement to attach certificate of available resources to school district appropriation measures, contracts, and purchase orders.
3327.06	Tuition collection requirements and provisions related to the unauthorized attendance of students.
<b>Requirements from Which Community Schools are Not Exempt</b>	
Chapter 117	State fiscal auditing requirements

**Table A-5: Human Resources Management Requirements**

ORC	Human Resource Management Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3313.202	Requirements related to the provision of life, health, accident, and legal insurance benefits for school district employees.
3313.211	Requirement to pay full-time employees while on jury duty.
3313.53	Requirements related to employing certificated persons for pupil-activity programs.
3313.601	Prohibition against barring teachers from providing periods for programs
3313.70	Prohibition against appointment of a school board member as school physician, dentist, or nurse.
3313.93	Prohibition against students being paid for work in a school district occupational work adjustment laboratory from being considered employees for purposes of school employee retirement law, non-teaching employee contract law, unemployment compensation law and workers' compensation law ( apparently meaning that students in such a program operated by a community school would be considered employees and, therefore, presumably would be subject to whatever law is applicable to other community school employees).
3317.061, 3317.063, 3317.064	Requirement to annually report licensed employees to the State Board.
3319.01-3319.011	Requirements related to school superintendent employment.
3319.02	Requirements related to employment of assistant superintendents, principals, assistant principals, and other administrators.
3319.03-3319.06	Requirements related to employment of school business managers.
3319.07, 3319.08, 3319.09-3319.111	Teacher employment and contract requirements.
3319.071	Prohibition against requiring teachers to participate in professional development programs.
3319.072	Teacher lunch period requirement.
3319.073	Teacher in-service training requirement in child abuse prevention.
3319.081-3319.087	Employment requirement for non-teaching employees.
3319.088	Educational aide employment requirements.
3319.10	Substitute teacher employment requirements.
3319.12	Annual professional staff salary notice requirements; requirements related to the transfer of administrators to other positions.
3319.13-3319.143	Leave of absence requirements for teachers and non-teaching employees, including professional development leave, sick leave, military leave, personal leave, and assault leave.
3319.15	Teacher termination of contract requirements.
3319.16 and 3319.161	School board termination of teacher contract requirements.
3319.17	Reduction in teaching force requirements.
3319.18-3319.181	Requirements related to employment of teachers and non-teaching employees when school district territory is transferred or districts are consolidated.

3319.21	Prohibition against a school board participating in a contract employing a relative of a school board member; requirement that these contract and any contracts in which a board member has a pecuniary interest are void.
3319.36	Prohibition against paying a non-licensed teacher (except teachers in community schools must be licensed under 3319.22-3319.31)
<b>Requirements from Which Community Schools are Not Exempt</b>	
2313.18	Employment protection for employees on jury duty.
Chapter 2744	The Sovereign Immunity Law for public employees.
Chapter 3307	State Teachers Retirement System
Chapter 3309	School Employees Retirement System
3319.39	Requirements for criminal records checks of job applicants.
4111.17	Ohio Equal Pay Law (anti-discrimination related to wages.)
Chapter 4112	Ohio Civil Rights Act
4113.52	Ohio Whistleblower Law
Chapter 4117	The State Collective Bargaining Law
Chapter 4123	Workers' Compensation Law
Chapter 4141	Unemployment Compensation Law
Chapter 4167	State Occupational Safety and Health Law

**Table A-6: Facilities Requirements**

<b>ORC</b>	<b>Facilities Requirements</b>
<b>Requirements from Which Community Schools are Exempt</b>	
Chapter 3318	School Facilities Law.
3313.75	Prohibition against renting or leasing a school building so as to interfere with the public schools of the district or for any purpose other that authorized by law.
3313.76-3313.79	Requirements related to the use of school buildings by the public when not being used for school purposes.
3313.92	Requirements related to joint construction projects between school districts.
4739.04	Unless the requirement is considered to be a facility safety issue, the requirement to employ a licensed boiler operator under certain circumstances.
<b>Requirements from Which Community Schools are Not Exempt</b>	
	None

**Table A-7: Food Service Requirements**

ORC	Food Service Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3313.81	Requirements related to food service operations and meals for the elderly.
3313.813	State Board of Education standards for school food programs (except that any health or safety standards related to school facilities would continue to apply).
3313.814	Requirement for school boards to have a policy governing the types of food sold to students on school premises.
<b>Requirements from Which Community Schools are Not Exempt</b>	
	None

**Table A-8: Transportation Requirements**

ORC	Transportation Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3321.08	Competitive Bidding Law regarding school bus purchases.
3327.09	Motor vehicle insurance requirement (though community schools must provide for liability insurance.)
3327.11	Requirements related to paying the cost of a student's room and board in certain circumstances.
3327.13	Requirements related to leasing buses for transporting students to and from school.
3327.14	Requirements related to providing transportation for senior citizen and adult education groups.
3327.15	Restriction on the use of school vehicles out of state.
3327.16	Requirements related to volunteer bus rider assistance programs; requirement to provide school bus rider instruction programs.
3327.01-3327.05	Student transportation requirements (section 3314.09 requires school district to transport its students to community schools in the same manner districts are required to transport students to other schools.)
<b>Requirements from Which Community Schools are Not Exempt</b>	
3327.10	School bus driver qualifications.

**Table A-9: Student Records and Reporting Requirements**

ORC	Student Records and Reporting Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
Chapter 3331	Requirements related to the issuing and administration of age and school certificates (except the parental right, under 3331.13, to obtain a child's school records upon request for purposes of an age and school certificate would apply.)
3313.94, 3319.35 and 3319.37	Annual school progress report. Penalties and consequences for failure to submit reports to the State Board.
3319.32	Student record keeping requirements, including photographs
3319.33 and 3313.941	Statistical reporting requirements for the student records and the requirement to include "multiracial" category in any statistics on race gathered for state or school district purposes.
3319.45	Requirement that school principal report certain offenses committed by students.
<b>Requirements from Which Community Schools are Not Exempt</b>	
109.65, 3313.672, 3313.96	Requirements for missing children reporting, information, and student fingerprinting.
Chapter 1347	Ohio Privacy Law
3319.321	Requirements for confidentiality of student information.
3313.67	Requirement to keep records of student immunizations.
3313.672	Requirement to request records from a child's previous school.

**Table A-10: Student Health Requirements**

ORC	Student Health Requirements
<b>Requirements from Which Community Schools are Exempt</b>	
3313.671	Prohibitions against allowing a student to remain in school longer than 14 days without submitting immunization records or evidence that immunization is in progress (except that the parent right to excuse a child from immunization for religious reasons would continue to apply).
3313.713	Requirements related to administering prescription drugs to students.
3313.714	Requirement, upon request from the Department of Human Services, to operate a "healthcheck" program for students covered by Medicaid (except that the parent right to excuse a child from a healthcheck would continue to apply).
3313.751	Prohibition against students smoking in any area controlled by a school board; requirement that a school board have a disciplinary policy to enforce the smoking prohibition.
3313.752	Requirement that a warning about anabolic steroids be posted in school locker rooms.
3313.95	Contract requirements for police services in alcohol and drug prevention programs.
<b>Requirements from Which Community Schools are Not Exempt</b>	
2151.421	Child abuse reporting requirements.
3313.50	Record requirements relating to student hearing and vision testing.
3313.673	Screening of new kindergarten and first-graders in hearing, vision, speech and communication, and health.
3313.69	Requirement to include hearing and vision screening is school opts to have any dental and medical screening.
3313.71	Tuberculin testing requirements.
3313.716	Requirement that public schools permit students to self-administer asthma medication.
3313.643	Requirement that students and teachers wear industrial eye protection in certain industrial courses or activities.

**Table A-11: Miscellaneous Requirements and Exemptions**

ORC	Miscellaneous Requirements and Exemptions
<b>Requirements from Which Community Schools are Exempt</b>	
Chapter 3311	Requirements related to the formation and territory of school districts and educational service center financing district's.
Title 35 (various sections)	Elections Law related to school board election and elections on tax levies and bond issues.
124.01	The Civil Service law related to non-teaching employees in city school districts.
133.01	The Uniform Bond Law, other than that part on issuing bonds secured by tax revenues.
3301.16	School chartering requirements.
149.351, 149.41	Requirements on retention of school resources and establishing a records commission.
3313.471	Prohibition related to the presentation of career information to students by the armed forces.
3313.482	Contingency plan requirement for making up calamity days.
3313.49	Student assignment requirements when a school is suspended.
3313.602 (A)	Requirement to have a policy regarding the recitation of the pledge of allegiance to the flag.
3315.07	Requirements related to the publishing of school materials for the public; prohibition against using public funds to support or oppose the passage of a school levy or bond issue or to compensate any district employee for time spent on supporting or opposing a levy or bond issue.
3319.41	School corporal punishment policy requirements and authorization.
3329.01- 3329.08	All requirements related to the selection and purchase of school textbooks and electronic textbooks.
3329.09	Requirements related to the accessibility and distribution of textbooks to students (except the parent's right to buy textbooks for a child at no more than 10% over the school district's cost would continue to apply.)
3329.10	Prohibition against a superintendent, supervisor, principal, or teacher acting as a school textbook sales agent.
<b>Requirements from Which Community Schools are Not Exempt</b>	
Chapter 102	Ohio Ethic law (except that a member of a community school governing board specifically may also be an employee of the board and may have an interest in a board-executed contract.)
121.22	The Public Meetings ("Sunshine") Law
149.43	The Public Records Law
3301.0710- 3301.0711	Statewide proficiency testing.
3301.0714	Education Management Information System (EMIS) requirements.
3313.602 (D)	Requirement that each school devote one hour to observance of Veteran's Day.
3313.61- 3313.611	Requirement to award diplomas to students passing the ninth-grade proficiency tests and completing the high school curriculum (Community schools are not subject to the Revised Code's curriculum requirements. They set their own.)

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3313.66, 3313.661, 3313.662	Student suspension, expulsion, and permanent exclusion requirements.
3313.80	Requirement to display the national flag.
	In addition, community schools must comply with any laws or rules that “grant certain rights to parents” and with health and safety standards established by law for school buildings.

**Source:** Ohio Revised Code §3301, 3302, 3311, 3313, 3315, 3317, 3318, 3319, 3321, 3324, 3327, 3329, 3331, Title 35, 4739, 5705.

**Source:** LOEO *Community Schools in Ohio: First-Year Implementation Report*, April 2000