



BUILDING FOR SUCCESS IN TENNESSEE

Measuring How Well Tennessee is Meeting Public Charter School Facility Needs

EXECUTIVE SUMMARY

Tennessee has significant opportunity to improve when it comes to meeting the facility needs of the state's public charter schools. Using ExcelinEd's [Charter School Facility Index](#) methodology to measure the actual impact of state policies, we have determined that Tennessee is currently meeting only 70.2 percent of the facility needs for the state's charter schools. This "facility gap" means public charter schools must find other revenue to pay the remaining 29.8 percent cost of their facilities, averaging at a cost of \$744 per student. If policymakers don't make any changes, the Index will fall to 64.8 percent in five years, with the facility gap cost growing to \$1,019 per student.

Because of this facility gap, an average-sized charter school in Tennessee must operate with six fewer teachers, diverting funding intended for student instruction to pay for facilities. In contrast, Tennessee's traditional public schools are receiving \$1,184 per student in *additional* local funding for facilities, from which charter schools are excluded. Thus, traditional public schools, unlike charter schools, are significantly protected from having to sacrifice instructional funding for students to pay for facilities. The facility gap also means that high-quality charter schools will have greater difficulty growing to provide educational opportunity to more students.

State policymakers have a suite of options to better meet the facility needs of Tennessee charter schools. Using ExcelinEd's customized Charter School Facility Index Tool, Tennessee policymakers can determine the likely impacts of any proposed changes in state policies.¹ For example, by adding a charter school weight to a new student-centered funding formula or increasing the state's existing charter school facility program or expanding access to underutilized district facilities—or a combination of the three—Tennessee can meet a much higher percentage of the need. Meeting this need is critical so charter schools can use as much of their funding for instruction as possible to meet the growing demand from Tennessee's families for quality public school options.

INTRODUCTION

Nearly 48,000 students attend 117 public charter schools in Tennessee. "Lack of access to affordable facilities is the most important challenge facing charter schools in our state," said Randy Dowell, executive director of KIPP Nashville.² Traditional public schools in Tennessee can access local funding specifically for facilities. Charter schools cannot. Instead, they must divert a significant portion of operating funds meant for classroom expenses toward rent or debt service.

This brief uses a new methodology, called the Charter School Facility Index, to assess the extent to which Tennessee is meeting the full facility needs of its charter schools.³ It examines not just how a policy reads on paper, but also what its impact is on the ground in meeting actual need. An Index of 100 percent means a state is meeting 100 percent of its charter school facility needs.

Tennessee policymakers have embraced public charter schools as a viable choice for parents and students. In keeping with that support, Tennessee has a strong interest in helping reduce the cost of facilities for all its charter schools. States have a variety of policies they can use to achieve this. The National Alliance for Public Charter Schools (NAPCS) identifies 14 of them, in three major groupings.⁴

¹ The Charter School Facility Index Tool is available [here](#).

² Interview with Randy Dowell, KIPP Nashville (January 28, 2022).

³ For more details on the Charter School Facility Index and its benefits, see ExcelinEd, [Building for Success: How States Can Address Charter School Facility Needs](#) (2019).

⁴ See National Alliance for Public Charter Schools, [Equitable Access to Capital Funding and Facilities](#).



First, a state can provide money to help charter schools rent or lease facilities. Second, a state can require traditional districts to provide no-cost or low-cost access to existing, often underutilized public buildings. Finally, a state can reduce the cost of borrowing so charter schools can own their buildings at a lower cost than long-term renting. They can do so by guaranteeing the loans or bonds, formally or through a state's "moral obligation." While the financing would come from private sources, the charter schools would pay significantly lower interest rates because of the state's backing.⁵

In reality, it takes a combination of these policies to fully meet the facility needs of charter schools in a state. The initial key question is whether Tennessee, through its various policies, is meeting the overall facility needs of its charter schools. This requires considering several factors.

The Charter School Facility Index can help Tennessee assess whether it is meeting the full facility needs of its public charter schools.

First, magnitude matters. For example, a large funding allowance for facilities helps more than a small one. Second, major investment in one policy may reduce the need for another. If many charter schools can access free facilities, fewer charter schools need their funding directed for rent. Finally, it is important to consider the needs of new charter schools. Even a generous facility allotment may not meet the growing demand for more charter schools if the overall available funding is capped in a state budget.

ANALYSIS: CURRENT CHARTER SCHOOL FACILITY INDEX (FY 2022)

One way to calculate the total charter school facility need is to consider how much it would cost Tennessee if it paid for the full facility-related costs for every student in a public charter school in the state. Tennessee currently has 47,868 students in 117 charter schools.⁶ Based on an ExcelinEd analysis, facility-related costs for charter schools in Tennessee are, on average, \$2,495 per student, or 16.0 percent of the schools' overall expenditures.⁷

This a conservative figure, considering the facility-related costs of traditional public schools are often much higher. For example, Metropolitan Nashville Public Schools is spending \$129 million on a new high school that will serve about 1,200 students. At \$108,000 per student, the cost is more than six times the facility-related costs of charter schools.⁸

At \$2,495 per student, the total facility need for all charter school students is \$119.4 million annually statewide, i.e., \$2,495 per student times 47,868 students. As explained above, Tennessee can meet this overall need through a combination of direct funding, access to district facilities and affordable financing.

Direct Funding

Tennessee's school funding formula, called the Basic Education Program (BEP), includes two facility-related components: capital outlay and maintenance and operations. Combined, these components equal \$1,339 per student. This amount from the state is included in the per-student funding that districts are required to send to charter

⁵ Under moral obligation, a state must request in its budget to pay for loan defaults, but there is no requirement that the approved budget include it. For more on how states can use bond guarantees and moral obligation to reduce the cost of charter school facility financing, see ExcelinEd, [Addressing Charter School Facility Needs](#) (2019).

⁶ Student enrollment and the number of charter schools come from the Tennessee Department of Education's [school-level profiles for 2020-21](#), using trends from the profiles from previous years to calculate figures for the current school year.

⁷ These figures come the [financial audits](#) for about 50 percent of charter schools randomly selected. Facility-related costs include rent, mortgage and interest, capital outlay, utilities, maintenance and other facility-related costs. They are adjusted for inflation to determine facility-related costs in FY 2022. In a companion tool, users can adjust facility-related costs if they feel that the facility-related costs are too high or too low. For comparison, facility-related costs for charter schools are 15.7 percent in Ohio and 15 percent in Indiana. See ExcelinEd, [Building for Success in Ohio](#) (2021); ExcelinEd, [Building for Success in Indiana](#) (2020).

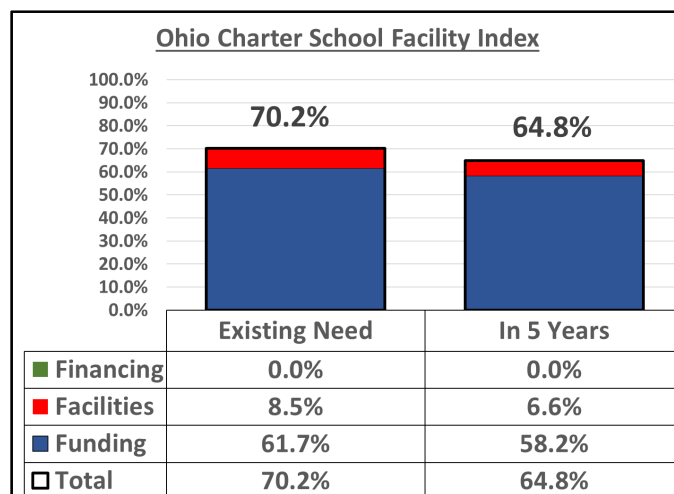
⁸ See Metropolitan Nashville Public Schools, [Fact Sheet 2021-22](#).



schools.⁹ Altogether, through the BEP, charter schools in Tennessee are receiving \$64.1 million for facility-related costs each year, which meets 53.7 percent of the need.¹⁰

Tennessee also has a charter school facility program, which typically provides a total of \$6 million each year.¹¹ Charter schools have used about half of these grants for rent or lease payments, with the remainder used for purchase, building and renovation of facilities. This program meets 8.0 percent of the need.¹²

With regard to additional local funding for facilities, Shelby County and Metropolitan Nashville/Davidson County are paying \$225.2 million each year for the facility needs of traditional public schools in their respective jurisdictions. These are locally generated funds used to pay for bonds. Charter schools in those jurisdictions do not receive any of this funding or benefit from the bonds.¹³



This means that, altogether through direct funding, Tennessee is providing the equivalent of \$73.6 million each year and thereby meeting 61.7 percent of the facility needs of its charter schools.

Access to Facilities

Tennessee law requires a district with “underutilized” or “vacant” properties to make them available for use by charter schools operating in the district.¹⁴ According to NAPCS, some charter schools in Shelby County have negotiated directly with the district to access facilities.¹⁵ The charter schools in the Achievement School District also operate in district facilities provided at no rent.

Altogether, about 44.1 percent of charter schools in Tennessee are in district facilities. Excluding ASD charter schools, it is 31.8 percent.¹⁶ These charter schools may pay low or no rent, but they are often in facilities requiring significant renovation, and they are also responsible for maintenance. Altogether, **charter schools located in district facilities are saving about \$10.1 million each year, which meets 8.5 percent of the need.**

⁹ See Tennessee Department of Education, [BEP Blue Book FY 2021](#). The components reflect student enrollment in different grade spans as well as a district’s square footage. The capital outlay amount comes from the Tennessee Comptroller of the Treasury Office of Research and Education Accountability’s [BEP calculator](#) for all charter schools. The per-student maintenance and operations calculation comes from the BEP calculator for Shelby and Davidson Counties.

¹⁰ Under the Basic Education Program, the state provides a portion of the funding, with local jurisdictions required to provide the remainder. The average state/local split for these “non-classroom components” is 50/50.

¹¹ This includes the cumulative benefit of \$36 million in nonrecurring funds. The program started in FY 2018 and provided \$6 million in nonrecurring funding for each of the first three years. For FY 2021, the state did not fund this program because of budget constraints. For FY 2022, the state provided \$6 million in recurring funding plus \$18 million in nonrecurring funding. Interview with Haley Dale, Tennessee Charter School Center (January 24, 2022).

¹² See Tennessee Charter School Center, [Charter School Facilities Program](#).

¹³ Based on the debt service reports over the past four years for Shelby County and Metropolitan Nashville/Davidson County. See, e.g., [Shelby County Debt Service Fund FY 2021](#). This does not include Hamilton County where there are five charter schools or Knox County, which has a single charter school.

¹⁴ See Tennessee Code [§49-13-136](#).

¹⁵ See National Alliance for Public Charter Schools, [Charter School Database: Tennessee](#).

¹⁶ See Interview with Libby Kindregan, Charter School Growth Fund (January 25, 2022); Interview with Elizabeth Fiveash, Tennessee Charter School Center (January 18, 2022).



Affordable Financing

Tennessee currently does not provide bond guarantees or use its moral obligation to lower the financing cost for charter schools seeking to purchase their own facilities. Thus, **financing support in Tennessee is meeting none of the overall charter school facility needs.**

Summary of Current Needs Met

The current Charter School Facility Index for Tennessee is 70.2 percent, as shown in the chart above. Direct funding provides 61.7 percent; district facilities are 8.5 percent; and affordable financing is 0.0 percent. The facility gap is \$35.6 million overall, or \$774 per student. In other words, charter schools are having to use other revenue to pay facility-related expenses amounting to \$774 per student.

To be more concrete, if Tennessee fully met charter school facility needs, an average-sized charter school could use those funds to hire an additional six teachers.¹⁷ Again, traditional public schools are not having to make this sacrifice. And, their local jurisdictions are spending an additional \$1,184 per student on the traditional schools' facilities.¹⁸

If Tennessee fully met current charter school facility needs, an average-sized charter school could hire an additional six teachers.

ANALYSIS: CHARTER SCHOOL FACILITY INDEX IN FIVE YEARS (FY 2027)

Total charter school facility needs in Tennessee will likely grow over the next five years as overall charter school enrollment and the number of charter schools increase. Charter school enrollment in Tennessee has grown by 7 percent per year over the past 5 years. However, if the state meets charter school facility needs more fully, enrollment could increase at least 25 percent faster.¹⁹ This means that conservatively 72,659 students will be in charter schools in five years. The number of charter schools will also grow by at least 3.3 percent each year. In five years, this means that there will be 138 charter schools.²⁰

Facility-related costs, e.g., rent and utilities, are expected to increase about 3 percent annually, rising to \$2,892 per student in five years.²¹

Altogether, the total facility need for charter schools will be \$210.1 million in FY 2027, i.e., \$2,892 per student times 72,659 students.

Direct Funding

Unless there is a change in policy, it is anticipated that Tennessee will continue to fund facility-related costs through its Basic Education Program, adjusted upwards for inflation. These components will total \$1,552 per student, paying for \$112.8 million in facility needs in five years. The state will also continue to provide \$6 million in recurring funding each year through the charter school facilities program.²² However, charter schools will still not have access to facility-related revenues raised by local jurisdictions. In sum, direct funding in just a few years will meet only 58.2 percent of total need in FY 2027.

¹⁷ Uses average teacher salary in Tennessee of \$55,037. See Salary.com, [Public School Teacher Salary in Tennessee](#). The average size for a charter school in Tennessee is 409 students.

¹⁸ As indicated above, local jurisdictions are making these payments as debt service on the financing of school facilities.

¹⁹ Interview with Sam Duell, Charter School Policy Director, ExcelsEd (February 6, 2020).

²⁰ Considers growth if not suppressed by facility barriers, as explained above for student enrollment.

²¹ See Interview with Libby Kindregan, Charter School Growth Fund (January 25, 2022).

²² See Interview with Elizabeth Fiveash, Tennessee Charter School Center (January 18, 2022).



Access to Facilities

Under current policy, it is “increasingly unlikely,” according to one expert, that additional charter schools in Tennessee will be able to access district facilities.²³ One barrier is that districts are using various strategies to keep surplus buildings off their eligibility lists.²⁴ It is also possible that some charter schools currently in district facilities will outgrow their space.

This means that a smaller percentage of charter schools will have access to district facilities in five years. Approximately 23.5 percent of non-ASD charter schools will be in surplus district facilities in FY 2027, down from 31.8 percent. Total savings will be \$13.8 million, meeting only 6.6 percent of total need.

Affordable Financing

It is not anticipated that the state will start providing bond guarantees or use its moral obligation to help charter schools access affordable financing costs.

Summary of Future Needs Met

Tennessee’s Charter School Facility Index in five years will be 64.8 percent, as shown in the chart above. Direct funding will provide 58.2 percent; district facilities will meet 6.6 percent; and affordable financing will cover 0.0 percent. The facility gap will grow to \$74.0 million, or \$1,019 per student. For context, consider that the funds an average-sized charter school will have to use to fill this facility gap could otherwise be used to hire an additional 10 teachers.

In five years, the total facility gap in Tennessee will grow to \$74.0 million, or \$1,109 per student.

NEXT STEPS

The Charter School Facility Index equips Tennessee policymakers to understand how well current policies are meeting charter school facility needs and, further, how future need will be met if policies remain the same. In addition, **through the Charter School Facility Index Tool that is available as a companion to this brief, policymakers can examine the potential impact of new or revised policies** and explore how they can use the full array of available policies to meet the overall need.²⁵

The state is considering a significant revision to its overall school funding formula. The new approach would provide a base amount per student, with additional funding for students who have higher needs. The extra funding amount is determined by taking a weight and multiplying it times the base amount. One option is to **include a charter school weight in the new student-centered formula to meet charter school facility needs**. For example, a weight of 1.148, with base funding of \$6,860 per charter school student, would fully meet the facility gap for Tennessee’s charter schools.

The Charter School Facility Index Tool equips Tennessee policymakers to examine the potential impact of new or revised policies and explore how they can use the full array of available policies to meet the overall need.

²³ See Interview with Libby Kindregan, Charter School Growth Fund (January 25, 2022).

²⁴ See Interview with Chris Barbic, City Fund (February 2, 2022). Another issue is that some surplus district facilities are not in the areas experiencing growth in student enrollment. See Interview with Randy Dowell, KIPP Nashville (January 28, 2022).

²⁵ The Charter School Facility Index Tool is available [here](#). Policymakers can also change certain assumptions, like how much charter school enrollment will grow if facility needs are more fully met.



Whether Tennessee changes its funding formula or not, there are multiple changes in policy the state can make to better meet the need of its charter schools. Below are some additional examples:

- **Add to the state’s existing charter school facility program:** If the state provides \$32 million in *recurring* funding each year, instead of \$6 million, it will meet an additional 12.4 percent of the need.²⁶
- **Provide charter schools with access to facility-related local revenue:** States like Colorado are requiring districts to share local funds raised for facilities. If charter school students in Shelby and Davidson counties receive this funding in proportion to their share of public school enrollment, it will meet an additional 35.0 percent of the total need. There is no cost to the state for this policy change.²⁷
- **Provide greater access to underutilized district facilities:** It is often easier and less expensive for charter schools to use facilities already built for classroom instruction, even if significant repair and renovation are needed. Tennessee can change its policy so that a higher percentage of charter schools can access, at no cost, these underutilized district facilities. This may require stricter rules about districts making available facilities that are significantly underutilized for classroom instruction. In California, for example, about 44 percent of charter schools are in district-provided facilities. If double the current percent of charter schools in Tennessee can access district buildings, it will meet an additional 6.1 percent of total need. There is no cost to the state for increasing charter school access to surplus district buildings.
- **Enable affordable financing:** States like Colorado, Idaho and Utah are enabling many charter schools to access more affordable private-sector financing by using their moral obligation. The savings to charter schools are substantial. Affordable financing is particularly important in Tennessee as charter schools are having either to build their own facilities or make substantial renovations to buildings leased from districts or private landlords. If Tennessee provides \$450 million in bond guarantees or moral obligation, it will meet an additional 3.0 percent of the need. The risk to the state is minimal, because the state has to pay only for the rare defaults that occur. The estimated additional cost to the state is \$300,000 per year.²⁸

The Charter Facility Index Tool shows how policymakers in Tennessee can mix and match various policies, improving those that already exist in the state and adding some that other states are successfully using, with the goal of meeting 100 percent of charter school facilities need. Meeting this need is critical so that charter schools can use as much of their funding for instruction as possible and, most importantly, meet the increasing demand from Tennessee’s families for quality public school choices.

²⁶ Charter schools can use recurring funding for ongoing lease payments and financing costs of renovation or purchase. If the funding is nonrecurring, it is useful for one-time facility-related costs.

²⁷ This would not apply retroactively to local revenue for previously issued bonds.

²⁸ With appropriate selection criteria, the state can keep defaults very rare. See ExcelinEd, [Addressing Charter School Facility Needs](#) (2019). The state will cover the cost of defaults over a 30-year period. Some state officials in Tennessee previously expressed concern that the state constitution prohibits any financing support for charter schools. Interview with Cameron Quick, Tennessee Charter School Center (January 18, 2022). However, Idaho and Colorado have similar constitutional language and successful moral obligation programs that have withstood legal scrutiny.