



# BUILDING FOR SUCCESS IN INDIANA

## MEASURING HOW WELL INDIANA IS MEETING CHARTER SCHOOL FACILITY NEEDS

### EXECUTIVE SUMMARY

Indiana has room to improve when it comes to meeting the facility needs of the state's charter schools. Using ExcelinEd's [Charter School Facility Index](#) methodology to measure the actual impact of state policies, we have determined that Indiana is currently meeting less than half, or just below 40%, of facility needs for the state's brick-and-mortar charter schools—and if policymakers don't make any changes, that number will drop to 36% in five years. This funding gap means charter schools currently have to spend other revenue, which is already lower than for traditional public schools in Indiana, to pay for the remaining 60% cost of their facilities, costing charter schools \$1,072 per student.<sup>1</sup> With this money, an average-sized charter school could, for example, pay for an additional eight teachers. The facility support gap also means that charter schools will have greater difficulty growing to provide opportunity to more students.

Through a companion [Charter School Facility Index Tool](#), Indiana policymakers can determine the likely impacts of any proposed changes in state policies.<sup>2</sup> For example, by providing charter schools with access to facility-related local revenue, expanding access to district-provided facilities and enabling affordable facility financing, Indiana could 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 Indiana's families. However, these proposed changes do not fix other, growing funding disparities in Indiana because traditional districts are increasingly accessing other local revenues from which charter schools are excluded to pay for instruction, transportation and many important services.

### INTRODUCTION

This brief uses a new methodology, called the Charter School Facility Index, to assess the extent to which Indiana is meeting the full facility needs of its charter schools.<sup>3</sup> 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% means a state is meeting 100% of its charter school facility needs.

Lack of access to affordable facilities is one of the most critical issues facing charter schools in Indiana and across the country. Traditional public schools can raise local funding specifically for facilities. Charter schools cannot. Instead they must use state tuition support dollars meant to pay for classroom expenses to pay for facilities. Charter schools in Indiana are treated equally when it comes to state tuition support funding; however, in some areas of the state, charters face a larger funding gap due to locally approved operational referenda that drive more dollars to the traditional public district.<sup>4</sup>

Indiana policymakers have authorized charter schools as a viable choice for parents and students. Students are in regular brick-and-mortar charter schools, adult brick-and-mortar charter high schools and virtual charter schools. In keeping with its support of charter schools, Indiana has a strong interest in helping reduce the cost of facilities for all brick-and-mortar 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.<sup>5</sup> First, a state can provide money to

<sup>1</sup> Charter schools in Indiana receive about \$1,000 per student less in operating funding than traditional public schools for a total funding cap of more than \$2,000 per student. See Center for Reinventing Public Education, [Ensuring All Students in Indiana Receive Their Fair Share of Funding](#) (2020).

<sup>2</sup> The Charter School Facility Index Tool is available [here](#).

<sup>3</sup> 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).

<sup>4</sup> See Center for Reinventing Public Education, [Ensuring All Students in Indiana Receive Their Fair Share of Funding](#) (2020); David Osborne and Emily Langhorne, PPI, [The Need for Equal Funding for Indiana Charter Schools](#) (2018).

<sup>5</sup> See National Alliance for Public Charter Schools, [Equitable Access to Capital Funding and Facilities](#).



help charter schools rent or lease facilities. Second, a state can require traditional districts to provide no- or low-cost access to existing, often under-utilized public buildings. Finally, a state can reduce the cost of borrowing so charter schools can own their buildings at a lower cost than renting. They can do so by guaranteeing the loans or bonds, formally or through a state's moral obligation.<sup>6</sup>

**It takes a combination of these policies to fully meet the facility needs of charter schools in a state.** The key question is whether Indiana, through its various policies, is meeting the overall facility needs of its charter schools. This requires considering several factors. 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 funding 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.

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

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## ANALYSIS

### Current Charter School Facility Index (FY 2020)

One way to calculate the overall charter school facility need is to consider how much it would cost Indiana if it paid for the full facility costs for every student in a brick-and-mortar charter school in the state. Indiana has 38,608 students in 98 brick-and-mortar charter schools, including 32,946 students in 78 regular brick-and-mortar charter schools and 5,662 students in 20 adult charter high schools.<sup>7</sup> Facility-related costs are 15% of expenditures, which are \$11,887 per charter school student in the state.<sup>8</sup> This means that the overall facility need for all charter school students is \$68.8 million statewide, i.e., \$1,783 per student times 38,608 students. As explained above, Indiana can meet this overall need through direct funding, access to district-provided facilities and affordable financing.

### Direct Funding

For students in regular brick-and-mortar charter schools, Indiana currently provides \$750 per student for facilities, transportation and buses.<sup>9</sup> Students in adult charter high schools do not receive this funding. Overall, this program provides about \$21.2 million for charter school facilities statewide.<sup>10</sup> Many states also allow charter schools to apply for annual grants to pay for facility needs. Indiana has such a program in statute, but it is not currently funded.<sup>11</sup> Some states provide charter schools with access to local taxes raised for facility-needs. Traditional districts in Indiana receive \$935 million each year in this local revenue. Indiana allows *but does not require* districts to share these funds,

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<sup>6</sup> 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).

<sup>7</sup> Interview with Marcie Brown-Carter, Indiana Charter School Network (Apr. 9, 2020). There are additional students in virtual charter schools, who are not included because they do not have traditional facility needs. Using the Charter School Facility Index Tool, discussed below, policymakers can choose whether to include or exclude students in adult charter high schools.

<sup>8</sup> These figures come from the FY 2019 audits for charter schools [posted](#) by the Indiana State Board of Accounts. Charter schools are spending 10% of total expenditures, including facility financing, for rental and ownership costs, and an additional 5% for other facility-related costs, like utilities. In Indianapolis, the cost of rental or ownership *alone* is higher, as much as 15%. Therefore, 15% for all facility-related costs is a conservative statewide figure. Interviews with BJ Lippert, Donovan CPAs (Mar. 4, 2010) and David Rosenberg, Center for Innovative Education Solutions (Mar.10, 2020).

<sup>9</sup> See [Indiana Code § 20-24-13-1](#).

<sup>10</sup> It is assumed that 90% of these funds pay for facility-related expenses with the remainder used for transportation and buses. Interview with Marcie Brown-Carter, Indiana Charter School Network (Feb. 6, 2020).

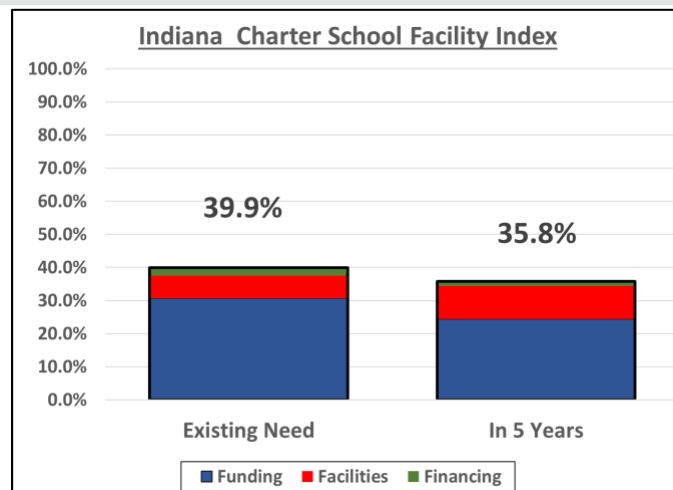
<sup>11</sup> Interview with Marcie Brown-Carter, Indiana Charter School Network (Feb. 6, 2020).



and charter schools currently do not get any of these local funds.<sup>12</sup> This means that, altogether **through direct funding, Indiana is meeting 30.7% of the facility needs of its charter schools**, i.e., \$21.2 million out of \$68.8 million.

## Access to Facilities

Indiana law provides that school districts must make unused or vacant facilities available to charter schools at no or low cost for rent.<sup>13</sup> Only one charter schools has gained access to district-provided schools under this provision.<sup>14</sup> However, under a separate “innovation” program, districts can voluntarily agree to provide district facilities to seven charter schools.<sup>15</sup> Only Indianapolis Public Schools has done this, providing seven facilities.<sup>16</sup> These eight charter schools in district-provided facilities are generally having to pay for other facility-related costs, like utilities.<sup>17</sup> Overall savings are \$4.7 million per year.<sup>18</sup> Thus, **through district-provided facilities, the state is meeting 6.8% of facility needs of total need**, i.e., \$4.7 million out of \$68.8 million.



## Affordable Financing

Indiana provided \$45 million in low-interest facility loans to charter schools starting in 2015. Because of the lower interest, the charter schools that received these loans are altogether saving about \$1.6 million each year.<sup>19</sup> This short-lived program has not received additional funding in the past two state budgets. The state does not provide bond guarantees or use its moral obligation to lower the financing cost for charter schools seeking to purchase their own facilities.<sup>20</sup> Thus, **financing support in Indiana has met 2.3% of total need**, i.e., \$1.6 million out of \$68.8 million.

## Summary of Current Needs Met

The current Charter School Facility Index for Indiana is 39.9%, as shown in the chart above. Direct funding provides 30.7%, low-cost district facilities are 6.8% and affordable financing is 2.3%. The facility gap is \$41.4 million overall, or \$1,072 per student. In other words, charter schools are having to use other revenue to pay \$1,072 per student. To be

<sup>12</sup> See [H.B. 1065](#) (2020). This includes \$635 million through the Capital Project Fund, and \$300 million from construction referenda. See Legislative Service Agency, *School Funding Data FY 2007 through FY 2018*; Center for Evaluation, Policy and Research (CEPR), [Database of Indiana School Referenda](#).

<sup>13</sup> See [Indiana Code 20-26.7.1-3](#); see also National Alliance for Public Charter Schools (NAPCS), [Measuring Up to the Model: A Ranking of State Public Charter School Laws, 2020](#).

<sup>14</sup> The one school is Excel Center Decatur, located in the same building as Decatur Township's School for Excellence. Interview with Marcie Brown-Carter, Indiana Charter School Network (Apr. 9, 2020). Another charter school, Mays Academy, received a facility from the local park service as a historical building. Interview with Caitlin Bell, Institute for Quality Education (May 15, 2020).

<sup>15</sup> See [Indiana Code 20-25.7-5-2](#).

<sup>16</sup> Interview with Brandon Brown, The Mind Trust (Mar. 12, 2020). In some instances, Indianapolis Public Schools turned over existing, low-performing schools to charter school operators.

<sup>17</sup> Based on a review of a sample of audits (see above), charter schools in district-provided space are paying about 5% of their expenditures on facility-related costs.

<sup>18</sup> Additional charter schools are in space subsidized by an affiliated organization. However, these arrangements are not the result of state policy, and these third parties are still having to pay to meet the facility needs of the charter schools.

<sup>19</sup> Charter schools are paying 1% in interest on these loans. Financing savings are based on a typical cost of \$8 million for purchasing a new 500-student school. The cost in Indianapolis is \$8 to \$12 million, so \$8 million is used as a conservative statewide average. Interview with Brandon Brown, The Mind Trust (Mar. 12, 2020).

<sup>20</sup> Some charter schools have accessed bonds; however, they are paying full-market rate, which is substantially higher than what they would pay if the state backed their loans.



more concrete, if Indiana fully met charter school facility needs, an average-sized charter school could hire an additional eight teachers.<sup>21</sup>

This gap exacerbates the growing funding disparity between traditional public schools and charter schools in Indiana. In addition to the facility-related local revenues mentioned above, traditional districts are also increasingly raising local funds for basic operations.<sup>22</sup>

### Charter School Facility Index in Five Years (FY 2025)

The overall charter facility needs in Indiana will grow over the next five years as charter school enrollment and the number of charter schools increase. Charter school enrollment in Indiana has grown by 7% annually over the past five years, and the state projects that enrollment will continue to grow at this same rate.<sup>23</sup> Also, if the state meets charter school facility needs more fully, enrollment will likely grow 25-50% faster, i.e., 8.75-10.5% annually.<sup>24</sup> At a growth rate of 8.75%, 58,725 students will be in charter schools in five years. Similarly, the number of charter schools has grown at 5.1% annually. In five years, this means that there will be 133 charter schools.<sup>25</sup> Facility costs, e.g., rent and utilities, are expected to increase about 2.5% annually, rising to \$2,017 per student in five years.<sup>26</sup> Thus, the total facility need for charter schools will be \$118.5 million in FY 2025, i.e., \$2,017 per student times 58,725 student.

**If Indiana fully met current charter school facility needs, an average-sized charter school could hire an additional eight teachers.**

### Direct Funding

It is anticipated that the \$750 per-student facility and transportation allotment will be funded by the state to include the increasing number of charter school students, paying for \$29 million in facility needs in five years.<sup>27</sup> However, there is no expectation that the state will provide money to its currently unfunded facility grants program or increase access to facility-related local revenues. As a result, direct funding will meet 24.4% of total need in FY 2025, i.e., \$29 million out of \$118.5 million.

### Access to Facilities

It is expected that in Indianapolis two or three additional charter schools per year will gain access to low-cost space from the district through the innovations program. However, it is also likely that two or three of the eight charter schools currently in district-provided spaces will outgrow them and need to find their own facilities.<sup>28</sup> This means that approximately 18 charter schools will be in low-cost, district-provided facilities in FY 2025.<sup>29</sup> Total savings will be \$11.8 million, meeting 10% of total need, i.e., \$11.8 million out of \$118.5 million.

<sup>21</sup> Uses average teacher salary in Indiana of \$50,218. See Arika Herron, *IndyStar*, "[Indiana Teacher Pay: Which School Districts Have Highest and Lowest Average Salaries](#)," (Feb. 13, 2019). The average size for a charter school is 394 students. The salary data comes from traditional public schools; the state is currently collecting teacher salary data for charter schools. Interview with Caitlin Bell, Institute for Quality Education (May 15, 2020).

<sup>22</sup> See Center for Reinventing Public Education, [Ensuring All Students in Indiana Receive Their Fair Share of Funding](#) (2020); Interview with Betsy Wiley, Institute for Quality Education (Feb. 6, 2020).

<sup>23</sup> Interview with Marcie Brown-Carter, Indiana Charter School Network (Apr. 9, 2020); Legislative Service Agency, *LSA's FY 19 Final Data Dump*.

<sup>24</sup> Interview with Sam Duell, Charter School Policy Director, ExcelinEd (Feb. 6, 2020).

<sup>25</sup> Considers growth if not suppressed by facility barriers, as explained above for student enrollment.

<sup>26</sup> Interview David Rosenberg, Center for Innovative Education Solutions (Mar.10, 2020).

<sup>27</sup> Interview with Betsy Wiley, Institute for Quality Education (Feb. 6, 2020). This assumes that the same 10% of the \$750 per student allotment will pay for transportation or buses.

<sup>28</sup> Interview David Rosenberg, Center for Innovative Education Solutions (Mar.10, 2020).

<sup>29</sup> The calculation is 8 existing schools minus 2.5 school that have to leave plus 2.5 additional schools gaining access each year times 5 years.



## Affordable Financing

The state is no longer offering additional low-interest loans. It is also not anticipated that the state will start providing bond guarantees or use its moral obligation to help charter schools access affordable financing costs.<sup>30</sup> Thus, financing support, based on the previous loans, will drop to 1.4% of need, or \$1.6 million out of \$118.5 million.

## Summary of Future Needs Met

Indiana's Charter School Facility Index in five years will be 35.8%, as shown in the chart above, down from 39.9% of current need. Direct funding will provide 24.4%; low-cost facilities will meet 10%; and affordable financing will cover 1.4%. The facility gap will grow to \$76.1 million, or \$1,296 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 11 teachers.

**In five years, the total facility gap in Indiana will grow to \$76.1 million or \$1,296 per student.**

## New Charter Schools

It is also helpful to examine how Indiana will meet the facility needs of the new charter schools seeking to open each year. By FY 2025, it is projected that 13 new charter schools will open across Indiana each year.<sup>31</sup> If existing policy remains in place, these schools will receive the same \$750 per student allotment as previously existing charter schools get. In Indianapolis, about one of the newly formed schools will receive district-provided space each year.<sup>32</sup> However, new charter schools will not receive any low-interest loans that other schools received under the now-exhausted state program. Thus, the Charter School Facility Index for new charter schools in Indiana will be 31.5%, roughly equating what it would cost for each school to hire an additional 12 teachers.

## NEXT STEPS

The Charter School Facility Index equips Indiana policymakers to understand how well current policies are meeting charter school facility 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.<sup>33</sup>

Below are some examples:

- **Provide charter schools with access to facility-related local taxes:** States like Colorado are requiring districts to share local funds raised for facilities. If charter school students in Indiana receive this funding in proportion to their share of public school enrollment, it will meet an additional 42.6% of the total need. There is no cost to the state for this policy change.

**The Charter School Facility Index Tool allows Indiana 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.**

<sup>30</sup> Interview with Dan Huges, Indiana Finance Authority (Feb. 26, 2020).

<sup>31</sup> The number of new schools opening each year is currently 8.2% of the previous year total; some charter schools are also closing, but the new charter schools will not likely be able to use those buildings. The growth rate will also likely be higher if the state meets more charter school facility needs, as explained above. As such, it is assumed that number of new charter schools will be 10.1% per year, which equals 12 schools in FY 2025, i.e., 10.1% of 133 schools.

<sup>32</sup> As noted above, it is anticipated that each year 2 to 3 additional charter schools in Indianapolis will receive district-provided space; however, about half of these are likely to be existing charter schools moving into these facilities.

<sup>33</sup> 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.



- **Improve access to no- or low-cost facilities:** Some states have more stringent requirements for listing surplus facilities and making them available to charter schools.<sup>34</sup> As a result, a higher percentage of charter schools are in district-provided facilities, e.g., 26% in Colorado and 44% in California.<sup>35</sup> Indiana could similarly strengthen its requirements. It can also incentivize more districts to use voluntary innovation agreements, like Indianapolis Public Schools is doing. Finally, policymakers can consider providing charter schools access to surplus space in other taxpayer-owned or subsidized buildings, like those in universities. If triple the number of charter schools can receive no- or low-cost facilities in Indiana, the state will meet an additional 21% of need. This would not impose any cost on the state.
- **Enable affordable financing:** States like Colorado, Utah, Texas and Arizona are enabling many charter schools to access affordable financing, which makes it less expensive to own than lease. The savings to charter schools are substantial. If Indiana provides \$450 million in bond guarantees or moral obligation, it will meet an additional 6.6% of the need. The risk to the state is minimal, as the state has to pay for the rare defaults that occur. The estimated additional cost to the state is \$270,000 per year.<sup>36</sup>
- **Increase the per-student facility allotment:** The current \$750 allotment only covers a fraction of the need. If the state increased it to \$1,250, it would meet an additional 16.3%.
- **Funding existing state facility grants:** Numerous states allow charter schools to apply for facility grants. If Indiana placed \$15 million per year into the existing unfunded program, it would meet an additional 12.7% of need.

The tool shows how policymakers in Indiana can mix and match the various policies, improving those that already exist in the state and adding some that other states are using, with the goal of meeting 100% of need. Meeting this need is critical so that charter schools can use as much of their funding for instruction as possible and meet the increasing demand from Indiana's families. It does not fix the growing funding disparities in Indiana because traditional districts are increasingly accessing other local revenues from which charter schools excluded to pay for instruction, transportation and many important services.<sup>37</sup> However, it would remove one critical barrier to educational opportunity in Indiana.

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<sup>34</sup> The [model legislation](#) from the National Alliance for Public Charter Schools (NAPCS) provides the best practice language on access to district-provided facilities.

<sup>35</sup> See Charter School Facilities Initiative, [An Analysis of the Charter School Facility Landscape in Colorado](#) (2018); Charter School Facilities Initiative, [An Analysis of the Charter School Facility Landscape in California](#) (2015). In California, districts must make "reasonably equivalent" educational facilities available to charter schools upon request.

<sup>36</sup> With appropriate selection criteria, the state can keep defaults at below 2 percent. See ExcelinEd, [Addressing Charter School Facility Needs](#) (2019). The state will cover the cost of defaults over a 30-year period.

<sup>37</sup> In addition to increased local revenues for facilities, traditional districts in Indiana are raising a growing amount of local revenue for basic operations, from which charter schools are excluded. See Center for Reinventing Public Education, [Ensuring All Students in Indiana Receive Their Fair Share of Funding](#) (2020); Interview with Betsy Wiley, Institute for Quality Education (Feb. 6, 2020).