



BUILDING FOR SUCCESS IN TENNESSEE 2023

*Measuring How Well Tennessee is Meeting
Public Charter School Facility Needs*

EXECUTIVE SUMMARY

Despite some improvements during the last year, Tennessee still has significant opportunity to improve when it comes to meeting the facility needs of the state’s public charter schools. Through its new school funding formula, the state included funding to help charter schools with facility-related costs. However, this funding replaced a facility grants program and is a fraction of overall facility-related costs, which are growing, particularly as more charter schools are needing to build or purchase their own facilities.

Updating ExcelinEd’s 2022 Charter School Facility Index analysis to measure the actual impact of state policies, we have determined that Tennessee is currently meeting 63.2 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 36.8 percent cost of their facilities, averaging at a cost of \$814 per student. If policymakers don’t make any changes, the Index will fall to 53.0 percent in five years, with the facility gap cost growing to \$1,203 per student.

Because of this facility gap, an average-sized charter school in Tennessee must give up six teachers, diverting funding intended for student instruction to pay for facilities. In contrast, Tennessee’s traditional public schools are receiving \$1,231 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.

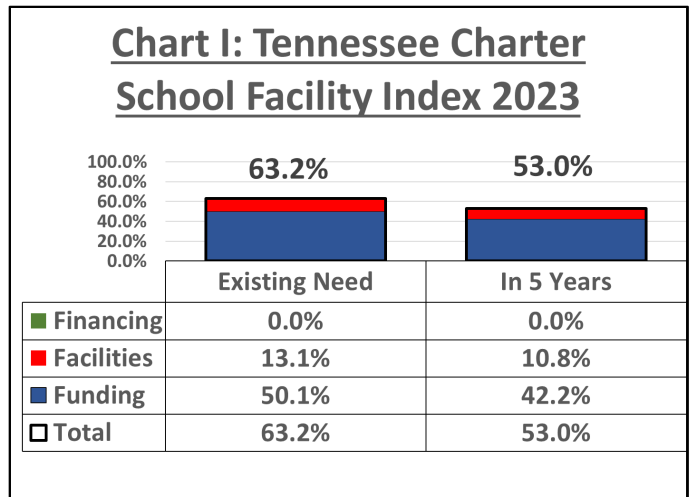
State policymakers have a suite of options to better meet the facility needs of Tennessee charter schools. Using ExcelinEd’s customized Charter School Facility Index Tool, Tennessee policymakers can determine the likely impacts of any proposed changes in state policies.¹ For example, by increasing the facility funding for charter schools in the new funding formula, restoring the state’s charter school facility grants or providing more affordable financing through a revolving loan fund—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 46,000 students attend 116 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.

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

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





Instead, they must divert a significant portion of operating funds meant for classroom expenses toward rent or debt service.

This brief is an update of a 2022 analysis that used 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 The Index 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

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, either formally or through a state’s “moral obligation,” where the financing would come from private sources, but 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.

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 toward 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.

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

ANALYSIS: CURRENT CHARTER SCHOOL FACILITY INDEX (FY 2023)

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 45,622 students in 116 charter schools.⁶ Based on an ExcelinEd analysis, facility-related costs for charter schools in Tennessee are, on average, \$2,210 per student, or 16.8 percent of the schools’ overall expenditures. The cost of building or purchasing a new facility is about \$21,727 per student.⁷

³ See ExcelinEd, [Building for Success in Tennessee](#) (2022). 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](#).

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 2021-22](#), using trends from the profiles from previous years to calculate figures for the current school year.

⁷ In the 2022 analysis, facility-related costs were 16 percent of expenditures. 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



This is a conservative figure, considering the facility-related costs of traditional public schools are often much higher. For example, Metropolitan Nashville Public Schools spent \$124 million on a new high school that will serve about 1,600 students. At \$78,000 per student, the cost is more than three times how much charter schools are paying to build their own facilities.⁸

At \$2,210 per student, the total facility need for all charter school students is \$100.8 million annually statewide (\$2,210 per student times 45,622 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

Through its new funding formula, called Tennessee Investment in Student Achievement (TISA), the state is providing \$22 million in “direct” funding for charter schools. This TISA funding is not restricted to facilities, but it comes out to \$482 per student. Charter schools can use this funding for facilities or something else, but if they use it for facilities, it satisfies 21.8 percent of need.

The state previously had a facility-specific grants program for charter schools, but it is now unfunded. Charter schools used the grants program to reduce long-term facility-related costs, meeting 2.4 percent of need.⁹

For each student, TISA also provides a base funding amount. Normally, base funding does not count as facility-related support, as none of the funding is restricted to that purpose. Moreover, charter schools typically receive less operating funding than traditional public schools. However, TISA replaced the Basic Education Program (BEP), which included two facility-related components: capital outlay and maintenance and operations. Schools were not required to use these funds for facilities, but the 2022 Index gave credit for these allocations. The updated analysis includes the equivalent of the BEP funding for maintenance and operations, but not capital outlay, which normally comes from separate revenues. As such, base TISA funding meets 25.8 percent of facility needs.¹⁰

Traditional school districts in Tennessee also receive substantial local funding for facilities. For example, Shelby County and Metropolitan Nashville/Davidson County are paying \$228.2 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.¹¹

This means that, altogether through direct funding, Tennessee is providing the equivalent of \$50.5 million each year and thereby meeting 50.1 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.¹² According to NAPCS, some charter schools in Shelby County have negotiated

costs. They are adjusted for inflation to determine facility-related costs in FY 2023. 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 17 percent in Idaho, 15.7 percent in Ohio and 15 percent in Indiana. See ExcelinEd, [Building for Success in Idaho](#) (2022); ExcelinEd, [Building for Success in Ohio](#) (2021); ExcelinEd, [Building for Success in Indiana](#) (2020).

⁸ See Maranda Whittington, “[MNPS Cuts Ribbon for New State-of-the-Art High School in Bellevue](#),” WKRN.com (July 27, 2023).

⁹ This includes the cumulative benefit of \$36 million in nonrecurring funds. Interview with Haley Dale, Tennessee Charter School Center (January 24, 2022).

¹⁰ The per-student maintenance and operations calculation comes from the [BEP calculator](#) for Shelby and Davidson Counties, adjusted for inflation.

¹¹ Based on the debt service reports over the past five years for Shelby County and Metropolitan Nashville/Davidson County. See, e.g., [Shelby County, Tennessee Adopted Budget Fiscal Year 2023](#).

¹² See Tennessee Code [§49-13-136](#).



directly with the district to access facilities.¹³ The charter schools in the Achievement School District also operate in district facilities provided at no rent.

Altogether, about 44.8 percent of charter schools in Tennessee are in district facilities.¹⁴ 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. This significantly reduces the actual savings. As such, **charter schools located in district facilities are saving about \$13.2 million each year, which meets 13.1 percent of the need.**¹⁵

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 63.2 percent, as shown in Chart I above. Direct funding provides 50.1 percent; district facilities are 13.2 percent; and affordable financing is 0.0 percent. The facility gap is \$37.1 million overall, or \$814 per student. In other words, charter schools are having to use other revenue to pay facility-related expenses amounting to \$814 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.¹⁶ Again, traditional public schools are not having to make this sacrifice. And their local jurisdictions are spending an additional \$1,231 per student on the traditional schools' facilities.¹⁷

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 2028)

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 4 percent per year over the past 5 years. However, if the state meets charter school facility needs more fully, enrollment could increase faster. This means that conservatively 58,201 students will be in charter schools in five years. The number of charter schools will also grow by at least 2 percent each year. In five years, this means that there will be 127 charter schools.¹⁸

Facility-related costs, e.g., rent and utilities, are expected to increase about 3 percent annually, rising to \$2,562 per student in five years.¹⁹

Altogether, the total facility need for charter schools will be \$149.1 million in FY 2028 (\$2,562 per student times

¹³ See National Alliance for Public Charter Schools, [Charter School Database: Tennessee](#).

¹⁴ See Interview with Libby Kindregan, Charter School Growth Fund (January 25, 2022); Interview with Elizabeth Fiveash, Tennessee Charter School Center (January 18, 2022).

¹⁵ The savings are based on the difference in facility-related costs between charter schools that are in district-provided facilities and those that are not, from the sample of schools examined. In the 2022 analysis, a separate savings calculation was made for Achievement School District charter schools as they did not receive capital outlay funding under the old funding formula.

¹⁶ Uses average teacher salary in Tennessee of \$52,201. See Salary.com, [Public School Teacher Salary in Tennessee](#). The average size for a charter school in Tennessee is 393 students.

¹⁷ As indicated above, local jurisdictions are making these payments as debt service on the financing of school facilities.

¹⁸ These projections are lower than in the 2022 analysis because of reduced growth for the 2021-22 school year. It is expected the growth will return to the previous trend. Interview with Libby Kindregan, Charter School Growth Fund (July 31, 2023).

¹⁹ See Interview with Libby Kindregan, Charter School Growth Fund (July 31, 2023).



58,201 students).

Direct Funding

Unless there is a change in policy, the state will continue to provide \$22 million in direct funding for charter schools through TISA. As the number of students in charter schools increases, the direct funding per student will decrease, from \$482 to \$378. This will meet only 14.8 percent of need, instead of 21.8 percent.

It is also anticipated that Tennessee will continue to provide base funding through TISA, adjusted upwards for inflation. Assuming the same proportion of base funding is attributed to facility-related costs, TISA base funding will continue to meet 25.8 percent of need in five years. The support charter schools previously received from the currently unfunded facility grants program will meet 1.6 percent of need. Charter schools will still not have access to facility-related revenues raised by local jurisdictions.

In sum, direct funding in five years will meet 42.2 percent of total need in FY 2028, down from 50.1 percent.

Access to Facilities

Under current policy, it is “increasingly unlikely,” according to an expert with the Charter School Growth Fund, that additional charter schools in Tennessee will be able to access district facilities.²⁰ Indeed, it is likely that some charter schools currently in district facilities will outgrow their space. One barrier is that districts are using various strategies to keep surplus buildings off their eligibility lists.²¹ Moreover, charter schools are growing in areas where there are not available surplus buildings.²²

This means that a smaller percentage of charter schools will have access to district facilities in five years. Approximately 37 percent of charter schools will be in surplus district facilities in FY 2028. Total savings will be \$16.1 million, meeting 10.8 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 53.0 percent, as shown in Chart I above. Direct funding will provide 42.2 percent; district facilities will meet 10.8 percent; and affordable financing will cover 0.0 percent. The facility gap will grow to \$70.0 million, or \$1,203 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 Tennessee will grow to \$70.0 million, or \$1,203 per student.

²⁰ See Interview with Libby Kindregan, Charter School Growth Fund (January 25, 2022).

²¹ See Interview with Chris Barbic, City Fund (February 2, 2022).

²² Interview with Tess Stovall, Tennessee Public Charter School Commission (July 31, 2023); interview with Randy Dowell, KIPP Nashville (January 28, 2022).



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 needs will be met if policies remain the same. In addition, using 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.²³

Below are some example changes in policy the state can make to better meet the facility need of its charter schools:

- **Maintain or increase the direct funding for charter schools in the state's new funding formula:** The \$22 million currently provided through the Tennessee Investment in Student Achievement (TISA) will meet a decreasing percent of need as enrollment in charter schools increases. If the state maintains \$500 per student, it will meet 5 percent more of the need the projected in five years. Doubling direct funding from \$378 to \$756 per student will meet an additional 14.8 percent of need.
- **Restore the state's charter school facility grants:** The Charter School Facilities Program is now unfunded. If the state provides \$32 million in recurring funding each year, it will meet an additional 21.5 percent of the need.²⁴
- **Create a revolving loan fund to reduce the initial cost of facility financing:** Tennessee can help charter schools access low-interest loans through a Revolving Loan Fund. In other states, philanthropic foundations are matching each loan made through the fund. Banks, or other private lenders, are then willing to provide the remainder of the facility funding needed at a lower interest rate. The overall cost is substantially lower than what a charter school can otherwise get, particularly newer charter schools. Over five years, a charter school will pay back the Revolving Loan Fund and take advantage of lower-cost long-term financing available to older charter schools. As the Revolving Loan Fund is replenished, more charter schools can benefit from it. By providing \$10 million for this fund, the state can meet 14.3 percent of need.
- **Enable more affordable long-term 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 more 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 3.2 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.²⁵
- **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

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 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.

²⁴ 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 and therefor meets a smaller percentage of need.

²⁵ 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.



funding in proportion to their share of public school enrollment, it will meet an additional 28.3 percent of the total need. There is no cost to the state for this policy change.²⁶

- **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 50 percent more charter schools in Tennessee can access district buildings, it will meet an additional 5.4 percent of total need. There is no cost to the state for increasing charter school access to surplus district buildings.

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. Here is an example.

- Double direct funding for charter school students from \$378 to \$756 per student.
- Provide \$20 million in recurring funding in the Charter School Facilities Program.
- Provide 50 percent of the local funding from which charter school students are currently excluded.
- Create a \$100 million Revolving Loan Fund so that charter schools can build or purchase their own facilities.

This package of policies will result in the state meeting 100 percent of charter school facility needs in five years at an annual cost to the state of \$42 million. By eliminating the facility gap, the state can allow an average-sized charter school to hire 11 additional teachers. 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 This would not apply retroactively to local revenue for previously issued bonds.