New Jersey Charter Schools:
A Report On Facility Financing

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Organizational Background

Edward J. Bloustein School of Planning and Public Policy

The Edward J. Bloustein School of Planning and Public Policy serves as a center for the theory and practice of planning and public policy scholarship and analysis. As part of Rutgers, The State University of New Jersey, the school capitalizes on the strength and resources of this major research university. The Bloustein School reaches to the larger world beyond the realm of academia to contribute to the regional, national, and international communities. The Public Policy program is designed to prepare individuals to work on complex public policy issues by training them to develop an understanding of the political institutions and processes through which public policies are formulated and implemented.

New Jersey Community Capital

Founded in 1987, New Jersey Community Capital provides capital to socially minded investors interested in investing in a variety of community economic development projects. These projects include early care centers, schools, health clinics, human and social service programs, cultural and arts institutions, and other community services. New Jersey Community Capital understands that capital is not enough to meet the needs of the organizations it works with, therefore, its advisors and partners work with New Jersey Community Capital to provide technical assistance and consulting services in the areas of finance, marketing, operations, real estate, strategic partnering, and negotiations.
Executive Summary

Charter schools across New Jersey face numerous difficulties in funding their facilities, most notably that they are denied access to facility funding streams available to traditional public schools. These challenges often require charter schools to finance facility costs from their operating budget. This funding source is not only inadequate but also “crowds out” expenditures for instruction, which may compromise the quality of education provided by charter schools. As a consequence, charter school founders explore alternative private and public financing options to cover facility-related costs to preserve the use of their operating budgets for education.

This study focuses on the 56 charter schools operating in New Jersey, as well as the charter schools that never opened or have closed their doors during the 13-year history of charter schools in the state. Between January and April 2008, students from the Edward J. Bloustein School of Planning and Public Policy conducted 23 interviews with charter school founders and operators, members of the private and public lending community, and experts in the field of education and charter school facility financing. Also, as part of their research, they reviewed the literature on charter schools in the United States and analyzed the budget data of both charter and traditional public schools provided by the New Jersey Department of Education (NJDOE).

The New Jersey Charter School Program Act of 1995 (NJCSPA) authorized the Department of Education to review and approve charter schools. Since 1996, the NJDOE has received 298 charter school applications. In the 2006-07 school year, there were 15,965 students enrolled in charter schools statewide. Charter schools are not evenly distributed across the state. Rather, they are disproportionately clustered in the state’s 31 Abbott districts. Slightly more than half of all charter schools are located in Camden, Jersey City, Newark, and Trenton.

The NJCSPA mandates that the school district of residence pay charter schools 90 percent of the program budget per pupil, corresponding to the amount the home district spends per grade level. Budget documents indicate that 40 of the 45 charter schools in operation from the 2004-05 to 2006-07 school years received less than the legislatively mandated 90 percent. During these years, the statewide average per pupil funding for charter schools was closer to 70 percent. Further widening the funding gap between charter and traditional public schools is the “unfunded” costs for charter school facilities. On average, for the 2004-2005 to 2006-07 school years, New Jersey charter schools spent approximately 12 percent, or about $1,300 per pupil, of their operating budgets on facility-related costs.

The disparity in funding for charter schools has implications on instruction-related expenditures. For the 2004-05 to 2006-07 school years, traditional public schools spent, on average, 51 percent of their total operating budgets on instructional costs, compared to only 40 percent by charter schools. Due to the clustering of charter schools in Abbott districts, which receive significantly higher amounts of state aid, instructional expenses in charter schools were, on average, $4,600 per pupil, which is only 53 percent of the $8,470 per pupil spent in the charter school’s home district. Likewise, on average, charter schools spent $1,895 per pupil on support services, compared to the $2,936 spent by traditional public schools in their home districts.

In addition to these spending discrepancies, New Jersey charter schools face numerous difficulties finding and acquiring suitable facilities. Not being able to secure affordable and suitable facilities has hindered
roughly half of state-approved charters from opening their doors. At least initially, newly established charter schools begin small and plan to increase student enrollment as they mature. For this reason, many choose to rent facilities that will accommodate their growth, while not burdening their budgets on space they do not immediately need. As charter schools mature and their enrollments expand, they often move from facility to facility, eventually purchasing a building that meets their expected capacity. When optimal size facilities cannot be found at affordable prices, some charter schools, at least temporarily, divide school grades or functions across multiple facilities.

Existing state statutes restricting the use of state funds for charter school facilities inhibits charter schools’ ability to qualify for federal funding; a source that is commonly used to finance charter school facilities in states that provide matching funds. Such statutes put New Jersey charter schools at a competitive disadvantage relative to their counterparts in other states. The New Jersey Economic Development Authority (NJEDA) is available to help charter schools raise facility capital through bond financing. But because bond financing is complex and typically involves high “broker” costs, charter schools rarely pursue it. Recognizing these barriers, the NJDOE recently began providing start-up funds to approved charter schools. These funds, however, are not guaranteed and cannot be counted upon in planning stages.

This lack of state funding for facilities in combination with the 90 percent provision in the NJCSPA often compels charter schools to seek alternative funding sources to cover both current expenses and future growth plans. Occasionally, the private market provides facility financing for charter schools. Yet, more often, private lending institutions are reluctant to lend to charter schools because of their relatively new status, the short lengths of their charters, and the limited alternative uses for vacated facilities if the charter school fails. Private lending institutions are increasingly more comfortable with lending to charter schools but only after they establish their viability.

While the charter school movement does receive significant support from the philanthropic community, it is unreasonable to expect philanthropy to fully or even adequately meet the facility financing needs of New Jersey charter schools. In recent years, these institutions have reported an increase in the number of requests and applications by charter schools. Grants from these charitable institutions are competitive and generally cover only a fraction of the facility costs for charter schools.

Competition between traditional public schools and charter schools and among charter schools themselves also hinders the development of charter schools. Traditional schools and their unions have used political means to limit the growth of charter schools. In addition, traditional schools in New Jersey, in an effort to impede the growth of charter schools, have not been willing to share their unused space, even if compensated, with charter schools. Cooperative sharing of space is practiced in other states and is encouraged by their government officials. Competition among charter schools also produces inefficiencies when it discourages collective purchasing that yields lower per unit costs, the sharing of know-how and resources to efficiently develop new charter schools, or collective bargaining with the legislature on behalf of charter schools.

Overall, New Jersey statutes were found to place charter schools at a competitive disadvantage. This compromises charter schools’ ability to achieve their educational missions. Parity in financing is the only way to make charter schools a viable alternative to traditional public schools. Furthermore, the failure of charter schools to cooperate with traditional schools and other charter schools results in waste and higher costs within the educa-
tional system. To level the field between these two types of public schools and to push the system towards greater efficiency, the following recommendations are advanced:

- Statutorily guarantee charter schools receive 90 percent per pupil funding;
- Augment the 90 percent allocation with $1,300 per pupil where the student enrollment level is a weighted average of current and expected future enrollment;
- Amend the NJCSPA to allow the use of state funds for charter school construction and charter schools to assume debt that is not considered temporary;
- Maintain the charter tenure and renewal system as it currently exists but require the timely provision of statistical data on the number of and reasons for the revocation of charters;
- Provide state funds, through and managed by Community Development Financial Institutions, that are earmarked for investing in and loaning to charter schools;
- Require traditional public schools report available unused space and establish incentives that encourage accurate reporting and the renting/leasing of space to charter schools;
- Establish a pilot program of a charter school “incubator” to house newly chartered schools and facilitates; and
- Encourage New Jersey charter school support groups to organize purchasing cooperatives.

Parity in financing of charter school costs, coupled with more informed private lenders, greater access to federal funding sources, effective brokering by Community Development Financial Institutions, and more sharing of unused space in traditional schools, would reduce the time and effort expended by charter school administrators searching for a facility and for its funding. This would be a win-win for education, as economizing on search costs would reduce administrative costs, freeing up funds for instruction, as well as reducing the need to draw on operating funds to finance facility-related costs, increasing the proportion of the per pupil state allocation that charter schools spend on education.
Acknowledgments

We are grateful to the charter school operators, public and private financiers, charter school experts, and other individuals involved in charter school facility finance who gave up their time to share their thoughts and stories with us. Without their valuable insights, this report would not have been possible.

We thank New Jersey Community Capital, who came to us with the idea for the study, including David Scheck, President; Jennifer Bredehoft, Vice President, Communications and Investor Relations; and Leah Apgar, Associate, Financial Products & Services. We thank Henry A. Coleman, Professor at Rutgers’ Bloustein School of Planning and Public Policy, and Dr. Greg Stankiewicz, from the New Jersey Office of Management and Budget, for sharing their expertise. Additionally, we thank Nicole Cane, from the New Jersey Department of Education for her help in analyzing public school budgetary data. Finally, we thank Dr. Nancy Wolff, Professor at Rutgers’ Edward J. Bloustein School of Planning and Public Policy, who has been indispensable both with her guidance and expertise throughout all stages of this study.
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Introduction

This report is the result of a four-month, statewide study of the need for and availability of charter school facility financing in New Jersey. The study was conducted for the Community Loan Fund of New Jersey, Inc., a certified Community Development Financial Institution (CDFI), operating under the trade name New Jersey Community Capital. Our research describes the challenges charter schools in New Jersey face as a result of the New Jersey Charter School Program Act (NJCSPA), which limits how charter schools raise and receive funds, and the often creative and innovative approaches taken by these schools to overcome these limitations.

The report focuses on New Jersey charter schools; schools chartered by the State of New Jersey that do not have access to many of the sources of facility financing used by traditional public schools, namely direct tax dollars for facility financing. In addition, the NJCSPA mandates that charter schools receive 90 percent of the per pupil funding given to traditional public schools. Consequently, by legislative design, charter schools provide instruction with fewer resources than traditional public schools.

To explore the implications of these financing limitations on charter schools, this report addresses the following issues:

- The state of the charter school movement in New Jersey;
- The funding disparity between charter and traditional public schools;
- The availability of potential charter school facilities in New Jersey;
- Financing options for charter schools in New Jersey;
- The challenges charter schools face in New Jersey; and
- Reforms that would facilitate parity for charter schools in New Jersey.

Using the information collected as part of this study and the ensuing analyses, this report offers a set of recommendations for addressing the problems that limit the development of charter school facilities in New Jersey.

METHOD

This study was conducted in stages, all of which overlapped with one another. First, we conducted a review of the literature pertaining to the financing of charter school facilities. Following this, data were analyzed in order to compare the funding charter schools receive to the level of funding received by traditional public schools in New Jersey. The interview portion of the project was the final stage. Interviews were conducted with lenders, borrowers, and education finance experts to better understand, from different perspectives, the problems facing charter schools. These research stages are described below.

Literature Review

The literature review included academic and non-academic articles, reports, websites, laws, and statutes relating to the field of education facility financing generally, with emphasis placed on charter schools. The literature consulted in this review appears in Appendix A: Works Consulted and Works Cited.

Data Collection and Analysis

An analysis was conducted of budget data for both charter and traditional public school districts in New Jersey. To measure the extent to which New Jersey charter schools are required to use operating funds to cover facilities expenses, annual budget data for charter schools, their home districts, and all other public school districts for the 2004-05 to 2006-07 school years were disaggregated by expenditure type. The objective here was to examine and identify facilities-related expenditures, and then to compare spending on a per pupil basis for three types of districts in terms of instruction, support services, facility, administration, and the total amount spent per pupil.
Interviews

Twenty-three interviews were conducted with lenders, borrowers, and education finance experts from February 11, 2008 to April 2, 2008. The majority of interviews were conducted over the telephone, however, a small number were conducted in person. Each interview took approximately 30 minutes. In all, interviews were conducted with seven charter school founders or administrators, referred to as borrowers, 11 members of the lending community, and five experts in the field of education, charter schools, or facility financing.

Outline Of Report

Section 1: Charter Schools as a Method of Reform provides information about the charter school movement nationwide and in New Jersey. It specifically explains the components of the New Jersey charter school law that make it difficult for charter school facilities to finance their facilities and explains the disparity that exists between charter and traditional public schools.

Section 2: Analysis of School Budgets explores the differences in expenditures among charter schools, their home districts, and schools in districts that do not have charter schools. This section examines facility, instructional, support services, and administrative costs to highlight major expenditure differences between charter and traditional public schools.

Section 3: Finding a Facility and the Life-cycle of Charter Schools highlights the “life-cycle” of charter schools in general and focuses on the challenges charter schools face in identifying potential locations for new schools. This section also addresses the sometimes difficult choices charter schools must make as they add more students, grades, or both.

Section 4: Funding Options focuses on the traditional and more creative ways in which New Jersey charter schools supplement their allocation of per pupil funds to finance their facilities. This includes loans from Community Development Financial Institutions (CDFIs) and private lenders, fundraising and philanthropy, bonds, and government programs including the New Markets Tax Credit.

Section 5: Problems and Challenges calls attention to the problems and challenges that face charter schools in New Jersey. These problems include skepticism about the viability of the charter school movement and charter schools in general, a lack of per pupil funding for facilities from the state, and the inability for new charter schools to access money to either purchase or rent a facility. This section also looks at some of the statutory and political opposition to the charter school movement in New Jersey.

Section 6: Conclusions and Recommendations presents recommendations to level the playing field between charter and traditional public schools so that charter schools in New Jersey can focus more directly on their education mission, rather than on issues associated with finding and funding their facilities. Recommendations include providing parity of funding to charter schools, establishing a loan pool fund for charter schools in the state, and encouraging cooperation among charter schools and traditional public school districts and among charter schools themselves.
Section 1 – Charter Schools as a Method of Reform

The U.S. charter school movement has its roots in a number of school-based reforms including public school choice, alternative schools, and privatization. Although the exact origin of the term is debatable, the term “charter” is widely believed to have originated in the 1970s, when a retired New England public school teacher suggested that small groups of teachers be given “charters” by local school districts to explore alternative approaches to public school education. Charter schools – public schools that operate independent of local school boards under a charter granted to them by the state Department of Education – were originally envisioned as legally and financially autonomous public schools that would operate like a private business. In other words, rather than being accountable to state and local districts’ laws and regulations, the idea was that charter schools, individually, would be held accountable for student achievement (Mulholland, 1996).

The idea of charter schools gained momentum in the late 1980s, when the School District of Philadelphia began operating “schools-within-schools.” Between 1989 and 1993, 95 of these schools were opened in the district’s 22 high schools (North Central Regional Educational Laboratory, 2002). At about this same time, the State of Minnesota began developing charter schools (U.S. Charter Schools, 2008). In 1991, Minnesota passed what became the nation’s first charter school law. The Minnesota law, which has since been amended, specifically allowed for the creation of only eight charter schools. According to the law, these schools should be results-oriented and student-centered (Minnesota Office of the Revisor of Statutes, 1991). By 1995, 19 states, including New Jersey, had passed laws allowing for the establishment of charter schools. By 2003, that number had increased to 40 states, Puerto Rico, and the District of Columbia. Since the 1990s, the charter school movement has gained bipartisan state and federal support. Today, there are more than 1 million charter school students in more than 3,500 schools nationwide (U.S. Charter Schools, 2008).

Charter School Movement in New Jersey

New Jersey enacted charter school legislation in 1995. Under the NJCSPA, the New Jersey legislature declared that charter schools should be encouraged because they provide “a mechanism for the implementation of a variety of educational approaches which may not be available in the traditional public school classroom.” The act specifically states that charter schools may:

- help improve public learning;
- involve students and parents in selecting their learning environment;
- encourage the use of different and innovative learning methods;
- establish a new form of accountability for schools;
- require the measurement of learning outcomes;
- make the entire school the unit for educational improvement; and
- establish new professional opportunities for teachers (NJCSPA, 1995).

While the NJCSPA approved the formation of charter schools, it also contained provisions that challenged their growth and development. These provisions include:

- limiting the number of charter schools to 135 in the first four years;
- allocating per pupil funding at 90 percent of traditional schools; and
- disallowing state funds for facility financing and construction.

In addition to these legislative hindrances, the early years of the charter school movement in New
Jersey was marked by conflict between traditional public school districts, the newly formed charter school districts, and the teacher unions. In January 1997, the same month that then-Education Commissioner Leo F. Klagholz granted approval to 18 new charter schools, two local school boards, concerned about the loss of money from their operating budgets, appealed to the state Board of Education. The two school boards successfully blocked the efforts of charter schools to open in their districts. Today, New Jersey is home to 56 charter schools. As illustrated on the map below, 42 of New Jersey's charter schools are clustered in the state's 31 Abbott districts. In fact, 31 charter schools, or 55 percent, are located in four Abbott districts alone – Camden, Jersey City, Newark, and Trenton.

In spite of these obstacles, there was a strong interest in establishing charter schools in the state. The NJDOE received 37 charter school applications in the first year following the passage of NJCSPA. It granted 16 charters and 13 schools opened their doors in September 1997. Ten of the newly opened schools were located in Abbott districts. In the second year, the state received another 37 charter school applications and granted 23 charters (New Jersey Charter School Resource Center, 2007). Given the strength of the interest to start charter schools, the NJCSPA was amended in 2000 by the Charter School Funding and Research Act, which eliminated the cap on the total number of charter schools allowed in the state. This amendment also allowed charter schools to add additional grade levels as their students moved into higher grades (New Jersey Charter School Resource Center, 2007).

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3. The term Abbott districts was designated by several court cases, beginning in 1985. The court ruled that students in these low-income districts were entitled to the same educational opportunities as their wealthier peers. To compensate for the fact that these students were not receiving the same opportunities, the state was required to allocate additional money to these districts. There are currently 31 Abbott districts in New Jersey.
In spite of these obstacles, there was a strong interest in establishing charter schools in the state. The NJDOE received 37 charter school applications in the first year following the passage of NJCSPA. It granted 16 charters and 13 schools opened their doors in September 1997. Ten of the newly opened schools were located in Abbott districts. In the second year, the state received another 37 charter school applications and granted 23 charters (New Jersey Charter School Resource Center, 2007). Given the strength of the interest to start charter schools, the NJCSPA was amended in 2000 by the Charter School Funding and Research Act, which eliminated the cap on the total number of charter schools allowed in the state. This amendment also allowed charter schools to add additional grade levels as their students moved into higher grades (New Jersey Charter School Resource Center, 2007).

Today, New Jersey is home to 56 charter schools. As illustrated in Figure 1, 42 of New Jersey’s charter schools are clustered in the state’s Abbott districts. In fact, 31 charter schools, or 55 percent, are located in four of the 31 Abbott districts – Camden, Jersey City, Newark, and Trenton.

Since 1996, the NJDOE has received 298 charter school applications, including 22 from schools that submitted an application in the summer of 2007 with plans to open in either September 2008 or September 2009. As of the 2006-07 school year, there were 15,965 students enrolled in charter schools statewide. Of those, more than 80 percent, or 12,813 students, attended charter schools in Abbott districts. As shown in Table 1, the number of charter school students has increased significantly in the 10 years since charter schools were established in New Jersey, however, their total enrollment is only one percent of the state’s 1.39 million publicly enrolled students in grades kindergarten through twelve.

### Unequal Funding of Charter Schools

In accordance with the NJCSPA, charter schools are to receive 90 percent of the per pupil funding allocated to their respective home districts and are not entitled to the public funding for facility costs that are available to traditional public schools. This lack of funding parity between charter schools and traditional public schools, while debated by policymakers who crafted the NJCSPA, was approved by the legislature. This funding bias against charter schools was reaffirmed with the implementation of the Schools Construction Corporation (SCC), a program created in 2000 to help finance, design, and renovate the new construction of primary and secondary schools in New Jersey. Charter schools were de-

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**Table 1:**

| Charter School Enrollment History, SYs 2002-03 to 2006-07 |
|-----------------|---------------|---------------|---------------|---------------|---------------|
| Statewide Enrollment | 12,454 | 12,739 | 13,242 | 14,582 | 15,965 |

Source: New Jersey Department of Education

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As the Assistant Commissioner for Abbott Implementation for the NJDOE, Gordon MacInnes said three distinct attempts were made to eliminate the difference between what charter schools receive and the amount given to schools in Abbott districts. Although sympathetic to the challenges imposed on the charter schools, MacInnes said policymakers’ decision not to increase the funding always came down to money.
terminated ineligible for assistance from the SCC because of the stipulation disallowing charter schools to build facilities with public money. While SCC funds were technically available to charter schools to renovate facilities, charter schools were only eligible if they owned their facility, which most charter schools do not.

“There is no part of the law that established charter schools, that argues charter schools must do more with less.”

Many have questioned the rationale for the legislative bias against charter schools. According to one expert interviewed, “there is no part of the law that established charter schools, that argues charter schools must do more with less.” Nonetheless, because of the bias coupled with the practice of not providing charter schools located in Abbott districts with the additional money given to traditional public schools in these districts, the statewide average for charter school spending for the 2004-05 to 2006-07 school years in relation to home districts – the district that pays tuition to the charter school – was nearly 70 percent, as shown in Table 2.
Section 2 – Analysis of School Budgets

A number of national reports have examined the question of why charter schools receive little, if any, facility funding from state or local school districts. These reports describe the shortcoming of facility financing and its likely implications. One consistent conclusion found in these reports is that charter schools dip into their operating expenditure budget to finance their facility costs but they stop short of quantifying this effect. To understand the extent to which charter schools find it necessary to use operating funds to cover facilities expenses, we deconstructed the yearly budgets of New Jersey’s charter schools to examine, in detail, the relative proportion allocated to major spending categories. For comparison, we similarly decomposed the budgets of each charter school’s home district, as well as all other districts statewide.

The analysis to follow is divided into three main sections. First, we explore how much charter schools spend in relation to their respective home districts. Next, we take a thorough look at facility spending across district types, comparing spending proportions relative to the district’s total budget. Finally, we examine the impact of total available funding and facility spending on the budget as a whole. The goal is to identify the impact of facility-related expenditures on charter school budget decisions, which will provide the foundation for the rest of the report.

### The 90 Percent Fallacy

While charter schools in New Jersey anticipate receiving 90 percent of the per pupil program costs of their home district’s per pupil operating expenditure, many charter school administrators report that they receive less. Given that many charter schools are located in districts that receive considerable additional state aid, calculating how much money charter schools receive is difficult to determine from publicly available data (NJDOE, 2007). The exclusion of this additional state aid in the calculation of charter school’s per pupil allocation of home district expenditures explains why many charter schools, particularly those in Abbott districts, do not receive 90 percent of the “true” per pupil operating expense of their home districts (Bulkley, 2007).

Many interviewees offered anecdotal evidence about the lack of parity in charter school financing. We tested these claims using the publicly available data on school budgets and their allocations. These data were all obtained from the NJDOE. For the 2004-05 to 2006-07 school years (in 2004 adjusted dollars), using statewide averages, charter schools spent about 70 percent compared to the statewide average for districts that have at least one charter school (see Table 2). At the per pupil level, home dis-

### Table 2: Per Pupil Spending Summary for School Years 2004-05 to 2006-07

<table>
<thead>
<tr>
<th></th>
<th>Statewide Average</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter Schools, all</td>
<td>$11,403</td>
<td>$7,844</td>
<td>$15,734</td>
</tr>
<tr>
<td>Charter Schools, Abbott Districts</td>
<td>$11,335</td>
<td>$8,941</td>
<td>$15,734</td>
</tr>
<tr>
<td>Home Districts</td>
<td>$16,379</td>
<td>$10,667</td>
<td>$19,505</td>
</tr>
<tr>
<td>Home, Abbott Districts</td>
<td>$16,581</td>
<td>$15,338</td>
<td>$19,505</td>
</tr>
<tr>
<td>Charter Spending / Home District</td>
<td>69.6%</td>
<td>57.5%</td>
<td>98.6%</td>
</tr>
</tbody>
</table>


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3. See (LISC 2004), (LISC 2007), (NAPCS, 2008a), and (GAO, 2000).
4. A list of all districts operated for the 2004-05 to 2006-07 school years can be found in Appendix B: Comparison of Charter School Total Spending to its Home District.
5. As mentioned above, the majority of charter schools are located in districts that are designated as Abbott.
6. The most recent data available for both charter schools and all other districts were from the 2006-07 school year.
tricts outspent their charter school counterparts by nearly $5,000. While these figures support the claim of a lack of parity between charter schools and traditional public schools, a closer look shows that this is generally true for most, but not all charter schools.

Spending by charter schools compared to their home districts is varied across charter schools. At the low end is Gray Charter School in Newark, which spent only $9,957, or 57.5 percent, of the $17,306 spent by its home district. In contrast, Red Bank Charter School in Red Bank spent 98.6 percent, or $14,319, of the $14,526 spent by its home district. Table 2 shows that charter school spending is fairly consistent, even for those schools located in Abbott districts. Home districts that are Abbott, however, have a considerably higher lower bound of per pupil spending in comparison to all home districts. Of the 46 charter schools compared across the 2004-05 to 2006-07 school years, 41 schools spent less than 90 percent of the amount spent by their home district (See Figure 2). The remaining five charter schools spent more than 90 percent for these years, while none of these districts actually spent more than their home district. These results support claims by the experts interviewed that charter schools are not receiving the legislatively mandated 90 percent per pupil allocations. In fact, about 89 percent of charter schools in New Jersey had an average spending level below 90 percent for these schools years.

Some charter schools, however, spent more than the 90 percent mandated by the NJCSPA. These charter schools use alternative funding methods (discussed in Section 4). As shown in Table 3, on average, a larger proportion of charter school budgets are financed by federal government programs or other funding sources than either home districts or all other districts. The “other” category includes fundraising and philanthropy. Non-traditional funding sources, particularly for facilities, were reported by the experts interviewed as critical for charter schools. The higher state share for charter schools is attributable to the large proportion of charter schools located in Abbott districts.

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7. For charter schools enrolling students from more than one district, the average of all the sending districts was used for this comparison.

8. This refers only to the schools that were open for all three school years from 2004-05 to 2006-07.
These comparisons of expenditures, while simple, must be qualified. Expenditure differentials reflect variation in student composition. While student compositions are likely to be comparable between charter schools and their home districts since they draw from the same student population, the data needed to test this assumption are not published by the NJDOE. Data provided by the NJDOE, however, report special education concentration by type of public school. Higher classification rates would be expected to result in higher expenditures, everything else equal. As shown in Table 4, charter schools have the lowest classification rate at 1.4 percent, compared to their home districts at 6.4 percent and all other districts at 3.4 percent. Yet without knowing the level of disability and the exact cost factors involved, it is unclear how the variation in concentration levels impact per pupil spending or revenue sources. Still, it is reasonable to assume that at least a small portion of the expenditure differential between charter schools and their home district is attributed to higher concentrations of special education students in the home district.

Spending differentials may also arise if the composition of students varies by grade level. Education costs increase as children advance to higher grades, with high school costs exceeding elementary costs. According to data provided under the School Funding Reform Act of 2008 (SFRA) (SFRA, 2008), relative to elementary grade costs, student costs are 1.04 and 1.17 times higher for middle and high school students, respectively.

Table 3:

<table>
<thead>
<tr>
<th></th>
<th>Charter Schools</th>
<th>Home Districts</th>
<th>All Other Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>54.3%</td>
<td>44.4%</td>
<td>24.1%</td>
</tr>
<tr>
<td>Federal</td>
<td>7.0%</td>
<td>4.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Local</td>
<td>32.3%</td>
<td>45.5%</td>
<td>67.3%</td>
</tr>
<tr>
<td>Other</td>
<td>6.4%</td>
<td>5.8%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: NJ Department of Education’s Report Card

Table 4:

<table>
<thead>
<tr>
<th>Special Education Concentration by District Type for SYs 2004-05 to 2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter Schools</td>
</tr>
<tr>
<td>Home Districts</td>
</tr>
<tr>
<td>All Other Districts</td>
</tr>
</tbody>
</table>

Source: NJ Department of Education Report Card

Table 5 shows that charter schools educate a smaller proportion of high school students but a larger proportion of middle school students than either their home districts or all other districts. Given the relative representation of grade levels across school types and districts, the overall impact of grades on school expenditures and allocations cannot be determined without more careful examination.

Expenditures for Facilities

By disaggregating expenditures, we can explore in greater detail how expenditures on facilities vary across school types and districts and impact other spend-
ing categories. Facility expenditures for charter schools include mortgage-related costs, land and improvements, and building rental. Because 36 of the 56 charter schools in New Jersey lease their facilities, expenditures on leases or other facility costs are included in the definition of total cost of facilities. Identifying comparable expenditures for traditional school districts is more difficult in part because school budgets do not generally show major facilities spending. These costs are not “budgeted” because they are paid through the issuance of bonds, with state funds, or other methods. As a consequence, some traditional public schools do not list any costs associated with building or renovating facilities, especially in Abbott districts where new schools and renovations to existing schools are generally fully funded by the state. Through the help of a school budget analyst at the NJDOE, specific budget lines related to facilities were identified and compiled to create a total facilities expenditure figure.

Adjusting for inflation, average charter school expenditures for facilities have remained relatively constant from the 2004-05 to 2006-07 school years. In 2004 dollars, facility expenditures by charter schools ranged from a low of $1,309 per pupil in 2006-07 to a high of $1,336 per pupil in the 2004-05 school year. In contrast (see Table 6), using 2004 dollars for comparison, the average expenditure on facilities for the 2004-05 to 2006-07 school years by the home districts of charter schools was $165 per pupil. All other districts spent slightly more, with about 1.8 percent of their total budget allocated to facilities. This comparative measure highlights the relative burden borne by charter schools because of the facility financing restrictions created by the NJCSPA.

**Impact of Facility Spending on Operating Budget Allocations**

The major categories of per pupil expenditures are examined next to identify how the use of operating budgets by charter schools to finance facility-related costs influences the relative spending on other categories. The expenditure categories identified as central to school operation include:

- Facilities;
- Instruction;
- Support Services; and
- Administration.

Budget breakdowns by these major categories above are shown in Figures 3 through 5 for charter schools, home districts, and all other districts, respectively, and are displayed in Table 6. There is a little fluctuation over this period, with a high of 11.9 percent in the 2005-06 school year and a low of 11.3 percent in the 2004-05 school year. On the whole, however, the only trend that is evident here is consistency. In contrast, charter schools’ home districts spent only about one percent of their operating budgets on facilities during the same period. All other districts

<table>
<thead>
<tr>
<th>Facilities Expenditure by District Type for SYs 2004-05 to 2006-07</th>
<th>Per Pupil (PP) Average</th>
<th>Percent of Total Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter Schools</td>
<td>$1,320</td>
<td>11.6</td>
</tr>
<tr>
<td>Home Districts</td>
<td>$165</td>
<td>1.0</td>
</tr>
<tr>
<td>All Other Districts</td>
<td>$233</td>
<td>1.8</td>
</tr>
<tr>
<td>SFRA 2008</td>
<td>$175</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: NJ Department of Education, Avg for SY 2004-05 to 2006-07 in 2004 dollars

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cussed in turn. In general, the largest single expenditure for all school types and areas are instructional but the next largest expenditure source varies among charter schools, home districts, and all other home districts.

**Figure 3:**

![Charter School Budget Breakdown (3 year average)](image)


**Figure 4:**

![Home District Budget Breakdown (3 year average)](image)

Facilities

As discussed above and shown in Figures 3 through 5, facility spending, as a proportion of the operating budget, varies among charter schools, their home districts, and all other districts. Charter schools spend, on average, 12 percent of their operating budgets on facility-related costs, compared to 2 percent or less by the comparison districts.

Instruction

Instruction expenditures include salaries for teachers and instructional aids, textbooks, and other supplies used in the classroom. As shown in Figures 3 through 5, with 12 percent of the total expenditure allocated to facilities, charter schools have the lowest percentage of their budget allocated to instruction. Both home districts and all other districts, on average, spent more than 50 percent of their budget on instruction, while charter schools spent, on average, 40 percent of their budget in this way. Because the most effective rate of spending on instruction has received considerable research attention, there is no agreed-upon standard, however, in general, more is better than less. It was suggested by some of the experts interviewed that part of the reason instructional costs are relatively lower in charter schools is because they tend to hire younger teachers, with lower salaries than the more experienced teachers working in traditional public schools. Whether this is a choice or out of necessity is unclear, though it is clear that charter schools allocate a smaller portion of their budget towards instruction in part because a significant proportion of their budgets are allocated to cover facility costs.

Support Services

The category of support services includes expenditures on attendants and social work, health services, guidance office, child study team, library, and other educational media. In contrast to instructional expenditures, the percentage of the total budget allocated to support services is relatively consistent across all three district types. Home districts spent a slightly larger proportion (18 percent) than either charter schools (17 percent) or all other districts (12 percent).
Administration

Administration expenditures cover school- and district-level administrative and secretarial salaries. Note that the greatest variation in spending across school districts occurs in the expenditures on administration. Charter schools spent more than twice as much of their budget on administration compared to both home districts and all other districts. On average, charter schools spent about 20 percent of their budget on administration for the 2004-05 to 2006-07 school years. Home districts and all other districts, in contrast, spent about 10 percent. These higher administrative expenditures can be driven in part by the fact that charter schools must expend staff resources to search for and finance facilities.

Administrative costs may also be higher for charter schools because they are smaller and newer and, as such, cannot exploit economies of scale in administration in developing procedures and policies. A study of Michigan’s charter schools found a similar spending differential on administration (Michigan’s Charter School Initiative: From Theory to Practice, 1999). This report argues that the cost differential is due to the inability of relatively small charter school districts to achieve economies of scale associated with administering a school, particularly when there is a steep learning curve associated with starting up a charter school. The learning curve refers to the relative youth of charter schools compared to the longstanding traditional school districts where administrators have had years to streamline responsibilities and develop and implement operating protocols.

To test the economies of scale hypothesis, we examined administration spending for traditional public school districts in New Jersey of four different sizes. These sizes include districts with less than 100 students, between 100 and 300 students, between 300 and 500 students, and those with more than 500 students. We found that districts in the smaller three groups had nearly identical expenditures for administration as a proportion of total spending (approximately 11 percent). Table 7 shows, however, that a smaller percentage is spent by those districts with more than 500 students. It should be noted that while the proportion of administration spending is relatively consistent, the per pupil amount decreases as district size increases. Since small districts spend more total per pupil, a higher per pupil spending does not distort the proportion spent on administration. As these small districts still only spent, on average, about 11 percent of their total budget on administration for the 2004-05 to 2006-07 school years, we have effectively ruled out the economies of scale argument.

Another explanation suggested by charter school administrators was that more administrators are needed because charter schools emphasize strong academic leadership and more in terms of curriculum. Additionally, because charter school administrators often teach, their salaries are over-allocated to administration, not proportionally distributed to instruction. On the whole, this tells us that more research in this area is needed.

Table 7:

<table>
<thead>
<tr>
<th>District Size</th>
<th>Percent of Total Spending</th>
<th>PP Administration</th>
<th>PP Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100</td>
<td>11.8</td>
<td>$1,857</td>
<td>$15,704</td>
</tr>
<tr>
<td>101-300</td>
<td>11.3</td>
<td>$1,514</td>
<td>$13,452</td>
</tr>
<tr>
<td>301-500</td>
<td>11.5</td>
<td>$1,388</td>
<td>$12,107</td>
</tr>
<tr>
<td>More than 500</td>
<td>9.6</td>
<td>$1,187</td>
<td>$12,353</td>
</tr>
</tbody>
</table>


* Excludes charter schools and home districts
Other

Although the differences in expenditure for the “other” category among district types are almost as great as that for administration, the explanation is far more straightforward. Components of the other category include operations and maintenance, food service, extracurricular activities, equipment, and transportation. Transportation costs are the source of the discrepancy. Home districts pay costs associated with the transportation of students; costs not paid for by charter schools. Transportation costs can be nontrivial but because the NJDOE’s data does not break out transportation as a separate category, the exact amount of spending is not known. If transportation could be netted out, it would be reasonable to expect that the proportion of the operating budgets spent on “other” would be similar across the district types.

Bringing It All Together

There are two concurrent forces working against charter schools. First, the overall budget for most charter schools is not only less than their respective home district, but it is often less than what the NJCSPA mandates. Second, in addition to starting at a lower overall allocation, charter schools allocate approximately 12 percent of their budgets to cover facility-related costs. The combined effect imposes an unequal financial burden on charter schools. As shown below, the only additional major category in which charter schools outspent their counterpart districts is in administration, which may in part result from higher search costs associated with finding a facility and financing facility-related costs. As shown in Figures 6 through 10, the per pupil nominal spending of charter schools is less than that of their respective home district or all other districts. Given the fixed operating budgets of charter schools, the spending of $1,300 per pupil on facilities, in effect, crowds out funding for classroom instruction or support services; expenditures that directly influence the quality of education provided by charter schools.

Figure 6:

Figure 7:

Per Pupil Support Services Expenditure by District Type (3 year average)


Figure 8:

Per Pupil Administration Expenditure by District Type (3 year average)

Figure 9:


Figure 10:

Section 3 – Finding a Facility and the Life-Cycle of Charter Schools

New Jersey charter schools are at a financial disadvantage relative to their traditional public school counterparts because of the legislative mandates that provide them with lower per pupil funding and because finding a facility that meets their current and future needs can be costly. Facilities are a major unfunded expense for charter schools. This expense frequently hinders a charter school moving from the planning to the implementation phase. In fact, according to one expert, half of all state-approved charter schools never open because they are unable to find a suitable and affordable facility.

Charter schools have three facility options: buy, rent, or use space in a traditional public school facility. Many of the charter school operators interviewed for this study reported that they preferred purchasing a building that would allow them to both house their current students and provide them with the space for additional students and grade levels in the future. However, most charter schools cannot secure affordable, long-term financing until they have been open for three years or more (NJCC, 2005). Although many charter school founders prefer purchasing a building to renting one, some lenders said they believe owning could be too risky, especially for new charter schools. As one expert notes, “I think that schools need to find their sea legs before they start getting into owning space.” Because they are unable to purchase a facility immediately, the majority of charter schools rent. Most often, they rent a facility large enough to meet their immediate enrollment needs. As enrollment increases over time, these schools search for larger facilities, which often are rented as well. Finding a ready-to-use facility can be a challenge. Leasing a facility for a charter school typically requires making costly renovations to the building, even though the school may only reside there for a year or two. This is referred to as a leasehold improvement. After several costly experiences leasing properties, charter schools that survive develop a record of success, which can be used to secure funding to purchase a building. This pattern of renting toward buying is termed the “life-cycle” of a charter school.

The Charter School Life-cycle

For economic reasons, many charter schools choose to rent a facility, while simultaneously working to generate the capital they need to purchase a permanent building. Renting or leasing a facility typically begins the life-cycle of a charter school. For example, New Brunswick’s Greater Brunswick Charter School rents space for its middle school from Middlesex Community College. Renting a facility allows charter school operators to focus on developing high quality educational standards and core values for their first couple of years. After that, they can spend more time and resources finding a more permanent home.

There are drawbacks to renting facilities. One interviewee said that because her target student population was from a high-performing traditional school, it was important that her charter school open in a stable location, a symbol to parents that the future of the school was secure. Likewise, not having sufficient space in a rented facility may require the scattering of staff, especially support staff, across multiple locations, hindering collaboration among instructional and support staff. Similarly, moving school operations is expensive in terms of the costs of breaking down, transporting, and setting up school operations. It also puts a hardship on administrative, instructional, and support staffs.

Despite these difficulties, the first few years of struggle and compromise within the life-cycle of a new charter school demonstrates to lenders that the school’s operators are dedicated to the success of their school. This evidence is used by lenders to assess a school’s...
potential success when it applies for financing to fund the purchase of its own facility. The move from renter to owner is an important next step in the charter school life-cycle.

Finding a Home

Finding a suitable facility is difficult in both urban and suburban areas. This is especially true in recent years with the rise in real estate values and growing competition for space among an increasing number of charter schools. Often the difficulty associated with finding a facility prevents a state-approved charter school from opening altogether. For this reason, the NJ-DOE now requires charter school applicants to identify where they hope to open their school, a requirement that did not previously exist. One lender said his organization does not lend to charter schools because of the difficulties they encounter finding a suitable and affordable facility.

Three main difficulties are associated with finding a facility suitable to house a charter school. They are:

- **Locational preferences** – Charter schools often want to open in densely populated areas;
- **Environmental requirements** – Most available facilities do not meet the environmental requirements for schools, especially in urban areas; and
- **Informational gaps** – Local governments do not maintain a list of suitable sites for school facilities.

High search and renovation costs can forestall the opening of approved charter schools. These high search and renovation costs can often forestall the opening of approved charter schools. One charter school founder reported looking at as many as 70 properties before finding a 22,000-square-foot former bank building in downtown Newark. The identified building needed $450,000 in renovations. Another approved charter school founder reported spending an average of five hours a week for six months looking for a facility before abandoning their plan to open a charter school.

Charter schools are required by the state to operate in their district of residency, which limits the geographic area of their search for a suitable facility. One interviewee noted that because there are a limited number of sites where charter schools can locate in any single municipality, some charter schools operate as regional schools to allow themselves to look for a facility in more than one municipality.

Even when a suitable property is identified, charter schools have difficulty determining the ownership of the facility. Interviewees reported this is because municipalities often keep poor records of unoccupied buildings. Conducting background searches of space is especially challenging for new charter schools, whose founders often have other full-time jobs, making it difficult for them to spend the time it takes to find a facility.

As an alternative, charter schools could locate in former or underutilized school district facilities. Nationally, 10 to 15 percent of charter schools locate in former or underutilized school district facilities. Opposition from the home district and teacher unions has resulted in only a small minority of charter schools in New Jersey locating in vacant or underutilized public schools.
A full discussion of the opposition experienced by charter schools from their home districts is included in Section 5.

While it is possible for charter schools to partner with traditional public schools in New Jersey, public school opposition to charter schools prevents it from occurring with any regularity. This is not the case in New York City. For example, Uncommon Schools operates several charter schools in New York City, with many of their schools housed in underutilized public school facilities. Uncommon Schools leases the space for $1 a month. Cooperative sharing of space is encouraged by the city government, which closes poorly operating schools and allows charter schools to locate in them. While it hoped that a similar arrangement would evolve in Newark, a charter school operator there said politics prevented widespread cooperation and collaboration from occurring.

For many start-up charter schools, abandoned church facilities, such as former parochial schools, are particularly attractive opportunities because they are affordable and are either suitable or nearly suitable for children. Locating in a former Catholic school building allowed Newark’s TEAM Academy to open three months after it purchased the building. A significant drawback associated with the purchase was that the building was larger than needed. The school’s projected enrollment was 80 students but the space could accommodate much larger enrollments. However, the affordability of the building made the purchase worthwhile.

A charter school’s decision to invest in a rented facility can be problematic. This is because unless the charter school plans to eventually purchase the facility it improves, it will not benefit in the long term from the capital improvements it makes, unless the cost of these improvements can be fully recouped in the resale price (LISC, 2004). In addition to the costs of physical improvements, charter schools bear significant additional start-up costs associated with acquiring a security deposit, furniture, computers, and office supplies.

TEAM Academy:

TEAM Academy’s high school, located in Newark, currently occupies six classrooms in a Newark vocational school. Although the terms of the lease were favorable, the lease is only for two years and is set to expire in June 2009. TEAM had been pursuing the purchase of a 60,000-square-foot former industrial building for its new high school, which it thought was going to cost $23 million - $3 million to purchase and $20 million to renovate. However, structural problems made the cost of the renovation even higher and therefore prohibitive. Now, TEAM is looking to acquire a different facility. Hannah Richman, director of Friends of TEAM, said she hopes the building TEAM eventually purchases will cost no more than $25 million to both buy and renovate. Whenever a charter school purchases a building in need of significant renovations, interviewees said paying for that building between the time the purchase is made and when the school opens, often with a higher enrollment, is a great challenge. To compensate for these costs, Richman said her school must fundraise and finance creatively.

Affording a Facility

Of course identifying a suitable facility is only the first step for both start-up and established charter schools. Once a facility is found, charter school founders must arrange financing. For start-up charter schools, the process is “difficult if not impossible,” according to one interviewee. New charter schools begin receiving their state funding three months before the beginning of the school year. By that time, most start-up charter schools will have paid a security deposit and paid for its renovation if renting, or purchased and renovated a facility if buying. This process can be easier for already established organizations with capital and established performance histories.
Often charter schools purchase or rent a facility that needs a considerable amount of renovation. Paying for those renovations before the school opens and is generating revenue through per pupil allowances can be a significant obstacle for schools. To generate needed revenue for an expansion, schools often seek to increase their enrollment prior to expanding. This generates additional per pupil funds, which increases available capital to be used for the purchase or renovation of a facility.

New Jersey Community Development Corporation:

When looking for a building to house its first charter school, New Jersey Community Development Corporation (NJCDC) spent $3 million on a building Jeff Crum, the organization’s director of real estate, said he believes was worth less than that. Yet Crum said the high price tag was due to a dearth of other viable options. Although there is a significant amount of underutilized commercial space in Paterson, much of that space is contaminated and requires a considerable amount of remediation. After receiving its charter from the NJDOE in January 2007, NJCDC began looking for a facility. Because the organization had a relatively large cash reserve in comparison to other nonprofit organizations, it was able to pay the $9,500 fee for a preliminary assessment and clean-up of the site. The organization eventually bought the building, which had briefly been used as a charter school, on Paterson’s Spruce Street.
Section 4 – Funding Options

Identifying funding sources for facilities is a significant challenge for charter schools. Charter schools are legislatively limited to financing their facilities from the following four sources – per pupil allocations, capital funding programs, private fundraising, and facility grants (LISC, 2004), which will be discussed below.

Per Pupil Funding

The per pupil allocation received by charter schools is the single most important source of funding for facilities. Charter schools may use per pupil funding to rent a facility or to acquire loan financing. Lending institutions use a charter school’s per pupil allocation to determine the size of the loan it will make to the school. New Jersey charter schools, on average, spent $1,300 per pupil on facility-related costs for the 2004-05 to 2006-07 school years, or 12 percent of their operating budgets.

Loans

Per pupil funding is often insufficient to pay rent or mortgage on a facility, requiring many charter schools to pursue loan financing. Charter schools use a number of different types of loans to finance their facility-related needs, including:

- **Working capital loans** – used to finance the day-to-day operation of schools;
- **Development loans** – used to finance the opening, renovating, or expanding of facilities, covering costs associated with architect fees, environmental evaluations of properties, building permits, and other costs associated with pre-development;
- **Leasehold improvement loans** – used to finance renovations of rented facilities; and
- **Long-term loans** – used to finance major renovations and purchase facilities.

Traditional financial institutions are reluctant to make loans to charter schools in part because they generally evaluate charter schools as high risk investments and in part because charter schools do not have a credit history. At a minimum, financial institutions want charter schools to have one year of operating experience but prefer three or more years. When these institutions lend to charter schools, they often charge higher interest rates. Without outside assistance, charter schools often are unable to obtain loans that are large enough to meet their facility needs.

For this reason, charter schools often secure loans through intermediary lenders, such as Community Development Financial Institutions (CDFIs), which broker lending relationships between charter schools and major financial institutions. Intermediary lenders bring lending expertise and their understanding of charter schools to lending transactions and, in doing so, eliminate or at least reduce informational asymmetries between lenders and charter schools. When a major financial institution engages an intermediary, it effectively hires the intermediary’s staff as a broker with expert information about charter schools. Similarly, the intermediary works on behalf of the charter school to secure the loan and explain the lending conditions and process. Some intermediaries are CDFIs, often with an institutional stake in the outcome or success of the charter school they finance. CDFIs, according to several of the experts interviewed, provide charter schools with technical assistance through the financing process in a way that is not available at most major financial institutions.

Government Programs

There are a number of federally funded programs that provide financing to charter schools and entities like them. Funding through these federal programs is highly competitive, which means that charter schools cannot generally count on them. Below is a list of federal programs used by charter schools to at least partially fund their facilities:
- **Credit Enhancement for Charter School Facilities Program** – Operated by the U.S. Department of Education (USDOE), this program makes money available to non-profit organizations that help charter schools obtain credit. These funds cannot be used for the direct purchase of facilities but can be used for activities such as insuring debt for facility financing and guaranteeing leases (LISC, 2004; LISC, 2007). One expert said that in the past five years, this program had done more to change the financing available to charter schools than any other program. It plays a crucial role in bridging the gap between what commercial and nonprofit lenders are comfortable with and the needs of charter schools. A 2004 report by the USDOE estimated that this program provided nearly two-thirds of charter schools nationwide with funding during their start-up phase (USDOE, 2004).

- **The Community Development Block Grant (CDBG)** – Administered by the U.S. Department of Housing and Urban Development, the CDBG program is designed to provide grants to states, counties, and cities for community development activities. Although this program is not specifically for charter schools, it can be used by charter schools to build new facilities or add on to existing ones (LISC, 2004).

- **The Rural Development Community Facilities Loans and Grants Program** – Run by the U.S. Department of Agriculture, this program provides funds for rural development. Charter schools in rural areas are eligible to receive funds for facilities under this program (LISC, 2004).

- **The Child Care and Development Fund (CCDF)** – Operated by the U.S. Department of Health and Human Services, this fund primarily funds child care but can be used by charter schools to renovate existing facilities (LISC, 2004).

- **The State Charter School Facilities Incentive Grants Program (FIG)** – Administered by the USDOE, this program provides supplemental funds to states with per pupil facility aid programs for charter schools. The State Charter School FIG program was established to encourage states to provide charter schools with per pupil funding for facility financing. Charter schools in New Jersey are ineligible to receive funds from this program (LISC, 2007).

- **Public Assistance Grant Program** – Operated by the Federal Emergency Management Agency (FEMA), this program provides funds to charter schools in areas that have experienced disasters and need help rebuilding their facilities (LISC, 2007).

- **Qualified Zone Academy Bond (QZAB)** – Administered by the U.S. Department of Treasury, the QZAB, established in 1997, provides funding to public schools to rehabilitate and repair facilities located in Empowerment Zones or Enterprise Communities. QZAB funds may not be used for new construction (LISC, 2007). Although 29 states allow charter schools to access these funds, in practice, QZAB funding rarely goes to charter schools. This is because the QZAB program requires that states make a priority list and that charter schools receive a relatively high priority rating. Charter schools often appear at the bottom of such lists (LISC, 2007).

- **New Market Tax Credit (NMTC)** – Operated by the U.S. Department of Treasury, the NMTC provides tax credits to encourage the development of low-income communities. One lender noted that although NMTCs were not designed to finance charter schools, they have become an important source of funding for charter schools nationwide, as well as in New Jersey. In 2002, New Jersey Community Capital received $15 million from the NMTC program (LISC 2007). NMTCs provide a 39 percent matching subsidy for every dollar in equity an institution makes in a NMTC deal. NMTCs cannot provide enough tax credits to meet current demand by charter schools. According to a charter school lender, “the NMTC has been helpful but the number of excellent projects that do not receive new markets-related funding exponentially exceeds the number of projects that actually
do receive the funding. It is nowhere near enough.”

Even more troubling is that the NMTC program is set to expire on December 31, 2008. Although a bill is pending in Congress to extend the program, extension is not guaranteed.

**Fundraising/Philanthropy/Private Grants**

Many charter schools rely on philanthropy and fundraising to finance their facilities. These are difficult endeavors, especially for start-up charter schools. One charter school operator noted that despite hiring an employee whose main responsibility was to fundraise for a yet-to-be-open school, the school received little private funding because it did not have an established track record. Most charter schools, especially established ones, receive some form of grant funding from philanthropic organizations. As two interviewees noted, the amount received is often insufficient relative to the overall need to fund facilities. This is, in part, a consequence of the rising cost of both renovations and new construction throughout the country. Also, grants from philanthropic organizations may be restricted in order to meet the mission or goals of the organization granting them. Some organizations prohibit the use of grant money for facilities. Furthermore, according to one interviewee, New Jersey charter schools are at a disadvantage because of their proximity to New York City, which receives more attention from certain philanthropic and private grants.

Interviewees from a number of philanthropic organizations in the state said they receive more applications from charter schools now than they did in the past. Although unsure of exactly why this is, possible reasons include a rise in the number of charter schools in the state and the lack of any movement in the political arena for per pupil facility funding.

**Bond Financing**

Charter schools also use bond financing to fund their facilities. Typically issued by a government entity, tax-exempt bonds can be used by charter schools to raise equity for facility financing. These bonds require a hedge fund or underwriter to buy the bond. In New Jersey, charter schools can issue bonds through the New Jersey Economic Development Authority (NJEDA). As of 2007, the NJEDA has provided $34.7 million to nine charter schools through tax-exempt bonds and low cost, long-term loans. These arrangements are typically done in partnership with financial institutions, including banks and CDFIs. The state can also provide a credit enhancement that allows banks to make the loan. This provides borrowers with a blended rate, which one lender said is usually affordable to charter schools. Although not done often, the NJEDA can also provide direct financing through credit enhancements in the form of guarantees and bond financing to charter schools. Charter schools do not typically receive bond financing from the state because it is not well understood by many charter school operators and because high broker and professional fees make the process costly.
Section 5 – Problems and Challenges

While charter schools have a variety of financing options for their facilities, there are several factors that make some of these options less desirable. Here we discuss some of the most serious challenges charter schools face in financing their facilities.

Charter Length

In New Jersey, the state grants charters for a four-year period and renews them every five years thereafter (NJDOE, 1995). Traditional lending institutions, however, generally write capital loans spanning 30 years. The discrepancy between the length of charters and the terms of traditional loans results in a problem for some major financial institutions. These lenders are specifically concerned about what would happen if a school's charter is not renewed or if the charter school or state decides to close the school before the end of the loan term. The uncertainty about the school's charter heightens some lenders' concern about making loans to charter schools, especially those in their first four years of operation.

Concern about charter length, according to many interviewees, is misplaced for two reasons. The first is that charter revocation is uncommon. According to the New Jersey Charter Public Schools Association, only 14 charters have been revoked since 1995. In late 2007, the state exercised this power when it revoked the charter of Mercer Arts Charter High School after Education Commissioner Lucille Davy cited “a myriad of problems, ranging from fiscal woes to under-developed programs” (Rich, 2007). The school had been open for less than a year. The second reason is that a school's charter may be revoked at any time by the state. In fact, it is rare for a charter school to have its charter revoked at the end of an initial charter period or renewal period. The NJCSPA specifically states, “the commissioner may place the charter school on probationary status to allow the implementation of a remedial plan after which, if the plan is unsuccessful, the charter may be summarily revoked” (NJDOE, 1995).

Over time, with the near universal renewal of charters by the state, many lenders report having both a better understanding of the charter school market and less concern about charter length. Indeed two lenders reported that issuing longer charters would not change the risk associated with charter schools because if a charter school is performing poorly, the commissioner can begin steps to revoke the charter, regardless of when the school's charter is scheduled to be renewed.

There was a mixed view among the experts interviewed regarding the implications of charter length on lending practices. Some traditional lending institutions continue to be concerned about the risks associated with lending to charter schools. One interviewee, who represents a major lending institution, said it is hard to justify issuing a loan to a charter school that is longer than the school's charter. Some experts interviewed thought that increasing the length of time between charter renewals might encourage lending by traditional lenders. By comparison, the vast majority of states approving charter schools offer charters of 10 years or less, though three states have extended charters to as long as 30 years. For some lenders, extending charter lengths might improve the willingness of lend to charter schools (LISC, 2004).

Opposing views were expressed by other experts interviewed. One interviewee argued that the five-year renewal period is unnecessary because charter schools are no longer experimental – they are now well-established institutions. Other interviewees thought the issue of charter length was irrelevant. Instead, what they thought was relevant was the misunderstanding of charter length by financial institutions. They stressed the importance of educating financial institutions and others involved in facility financing about charter schools and the renewal and revocation process in New Jersey. Intermediary lenders generally have a better grasp of the risks associated with charter schools and are often crucial in helping charter schools overcome the perceived risk attributed to short charter lengths. In some cases, lenders reported that charter length was irrelevant in their decisions to lend to charter schools and was overshadowed by other factors such as demonstrating that enrollment levels will...
grow, that their academic program was effective, and that their financial future was strong.

**Misconceptions Add to Risk Factor**

In general, traditional lenders do not understand the business of charter schools. Not only do they not understand the chartering process but they also misunderstand the risks associated with charter school funding. These misunderstandings result in lenders over-assessing the risks associated with lending to charter schools, according to one lender. When deciding whether to lend to charter schools, traditional lending institutions generally seek a guaranteed and long charter length. However, as discussed above, it is impossible for charter schools to provide a guarantee. Interviewees noted that even charter schools with a relatively long history and well-established track record often have difficulty borrowing money from lenders because of concerns about sustainability. As one lender said, “frankly at this point, I do not understand why they wouldn’t get it.” Charter schools, they said, are no longer an unknown variable and banks should not be nervous about lending to them. Yet, as charter schools have become more established in New Jersey, interviewees claimed the lending community has become less concerned about the level of risk posed by newly opened charter schools. One lender stated that the risk of a charter school defaulting is less than perception indicates. According to a report by the Kauffman Foundation, of all charter schools that have ever operated in the U.S., less than 6 percent have defaulted (Kauffman Foundation, 2005).

Despite these changing views, the structure of some charter schools still make them unattractive to traditional lenders. For example, many investors prefer charter school enrollment to be between 300 and 500 students. However, nationally, charter schools have a median enrollment of about 150 students, reflecting a common goal of small enrollments to enrich the quality of instruction. In New Jersey, the median enrollment is 296 students. Many charter schools seek to keep their schools small in an effort to better serve their students. Yet, as a consequence of this philosophy, these schools are deemed risky by traditional lending institutions (LISC, 2004). Investors, it was suggested by one expert interviewed, may eschew investing in single-use facilities. Another interviewee noted that risk is mitigated if there is an alternate use for the facility to make up the potential loss of the loan. Even when alternative uses exist, some lending institutions prefer to avoid lending to groups or funds that deal with start-up charter schools. According to the Local Initiatives Support Corporation (LISC), traditional lenders report considering a variety of factors in deciding whether to finance a charter school. These factors include:

- school enrollment of at least 300;
- plans to grow;
- substantial cash reserves;
- operating history of at least three years;
- professional board of trustees;
- strong instructional leadership with superior student performance and academic programs;
- solid affiliations and partnerships;
- strong charter authorizer and state support for charter schools; and
- evidence of community support (LISC, 2004).

Many of these requirements are difficult, if not impossible, for charter schools to meet (LISC 2004). One interviewee, representing a lending institution, said that when lending to charter schools, his company’s main concern is the academic quality of the school. However, the company also considers other factors, including enrollment trends, wait list length, and the attrition rate of teachers in the school. Because most charter schools rent or lease a facility for their first few years of operation, lending institutions have at least some track record to examine before deciding whether to finance these schools.
There was a sense among the experts interviewed that when assessing the market, lenders typically evaluate two different markets – the market for charter schools in the area and the area’s real estate market. By considering the real estate market, lenders are examining the potential resale of the property in the event the charter school fails. In soft real estate markets, if a charter school fails, the lender may be able to find another charter school willing to buy or rent the facility. However, if the real estate market is strong, there are likely to be buyers for the vacated property, allowing the lender to recoup the value of the loan.

One lender argued that as the amount of public money directed toward charter schools continues to grow, charter schools will need to provide empirical evidence of their success and the benefits they have to the community.

A number of interviews said charter schools are held to borrowing standards that are different from the standards used to judge other borrowers and that charter schools should be judged on standards that are equivalent to the standards used to judge other enterprises or businesses. One lender noted how odd it is that charter schools are expected to provide a guaranteed future when this expectation is not imposed on commercial businesses. Another interviewee identified three criteria that should be used to determine the risk of an enterprise – proper management, if it meets a market demand, and if it is an effective system. If a charter school meets these standards, it should be considered a low-risk investment.

Lack of a Per Pupil Funding Mechanism

The lack of state funding for facilities is exacerbated by the fact that New Jersey charter schools are also prohibited from using revenue sources available to traditional public schools for financing, leasing, purchasing, renovating, and maintaining facilities (LISC, 2004).

The NJCSPA specifically states that “a charter school shall not construct a facility with public funds” (NJDOE, 1995). In 2001, Vito A. Gagliardi, then-Commissioner of the NJDOE, reported that charter schools spend between 20 to 25 percent of their operating funds on facilities (NJDOE, 2001). In his report, which was based on public hearings held by the NJDOE, Commissioner Gagliardi reported that charter schools received insufficient funds for facilities and estimated the average facility cost for charter schools at $1,500 per pupil (NJDOE, 2001). This cost, the report claimed, reduced the percentage of per pupil funds available for programs, instruction, and administration to less than 70 percent. In his report, Commissioner Gagliardi also recommended that charter schools be allowed to incur long-term debt and to use public funds for facility construction. As a remedy, the Commissioner recommended that charter schools receive state aid for facilities. Legislation that would have provided charter schools with $1,500 per pupil was introduced but never adopted by the legislature (NJCSPA, 2008).

The Bond Market

The bond market, especially tax-exempt bonds, poses several challenges for charter schools as a means for funding facilities. Tax-exempt bonds may be used by charter schools without equity. These bonds require underwriters, which can charge as much as 2.5 percent of the cost of the bond. In addition, experts interviewed explained that these arrangements generally take a long time to structure both because of their complexity and because of the difficulty in finding a hedge fund or underwriter to buy the bonds.

As previously mentioned, the NJEDA is responsible for promoting economic development through the use of public bonds, however, the NJEDA has financed surprisingly few charter schools. One interviewee noted that this is because charter schools are reluctant to work with the state. Bond financing is complex and not well-understood by charter school operators. In general, any assistance the state provides to help charter schools navigate the bond market typically goes to established schools.

Statutes and Regulations

Statutory requirements create obstacles for
charter schools. Since most charter schools lack equity and face a limited number of potential lenders, many seek assistance from federal programs. Though federal grants have helped charter schools across the country with facility financing, New Jersey charter schools are limited in the amount of federal grant money they receive. Because the state does not match these funds, a requirement for many of the federal grants, charter schools in New Jersey are ineligible for federal support. Statutory language also prohibits charter schools from taking on long-term, unsecured debt or short-term debt above the amount of funding they receive from state and local authorities (NJDOE, 2008). As one interviewee explained, this prevents charter schools from obtaining pre-development loans or lines of credit that extend beyond their fiscal year.

Like other state-funded projects, charter school facilities that receive public funds must publicly bid contracts and award those contracts to the lowest bidder. The state also requires that publicly funded charter schools pay the state prevailing wage to laborers, which can be problematic both because it increases the time required to contract for work and because it drives up the cost of projects. “For the large Fortune 500 companies paying prevailing wage is not an issue. But for nonprofits like charter schools, it’s pretty hard because it raises your construction budget significantly,” remarked one interviewee. The NJEDA recently spent two years working with a nonprofit organization, which then decided it would be better off not accepting state money because it did not want to pay prevailing wage, which would drive up its labor cost. Publicly bidding projects can pose other challenges as well. For example, a borrower said he has been unhappy with the public bidding process because it prevented them from using their regular contractor. Using unknown contractors adds uncertainty to the quality of the work and its timely completion.

Political Concerns

Like other educational institutions, charter schools face considerable political issues. Many interviewees said they were hopeful that the newly adopted school funding formula for both traditional public schools and charter schools in New Jersey would eliminate or at least narrow the funding disparity between the two types of public schools. One interviewee said he believes the new formula will allow charter schools to borrow more money because they will have additional money to reduce debt. However, there appeared to be some confusion among interviewees as to whether charter schools will receive a significant increase in funding under the new law.

Another source of political divisiveness emanates from public school opposition to charter schools. A borrower representing charter schools in both New York and New Jersey operates many of its New York charter schools in underutilized public school facilities, which the organization leases for $1 a month. In New Jersey, there has been recent pressure from the Newark City Council to repeal the ordinances the city passed in October 2007 allowing two charter schools to lease underutilized public school space (Addison, 2008).

Overcoming these political obstacles is particularly challenging for charter schools because they lack organized political power. One interviewee argued that the same independent spirit that enables groups of people to break from tradition and open charter schools is the same spirit that keeps charter schools from cooperating with each other on a significant scale. For the most part, charter schools in New Jersey lobby and advocate for greater facility funding as individual entities. An interviewee argued that charter school operators fail to understand and capitalize on their combined political power. Doing so would enable them to become a bigger and more powerful force in New Jersey public education.
Section 6 - Conclusions and Recommendations

Charter schools face a series of fiscal challenges that emanate directly from the NJCSPA. The funding that charter schools have available for their operation, in most cases, is less than the amount mandated by the NJCSPA. This, along with few viable alternative financing options, difficulty in finding suitable facilities, and misunderstanding of the risks associated with charter schools, hinder the growth and development of charter schools in New Jersey. The recommendations below seek to equalize the funding between charter and traditional public schools and to foster cooperation between public schools.

Recommendation #1: Parity in Financing

Amend the NJCSPA in the following ways:

- Guarantee the 90 percent per pupil funding of charter schools through mandatory monitoring and reporting of these percentages by charter schools;
- Augment the 90 percent per pupil funding by $1,300 per pupil using a weighted average of current and future enrollment projections, enabling schools to use this funding to pay for either facility rental or mortgage costs; and
- Allow public funding to be spent on charter school construction and allow charter schools to take on debt that is not considered “temporary.”

In order for per pupil facility funding to be as effective as possible, charter schools must be allowed to leverage the funding they receive. This will only be possible if they are allowed to take on long-term debt or construct their facility using public money.

If per pupil funding for facilities were provided, charter schools would be eligible to receive federal money from the USDOE’s State Facilities Incentive Grant program (SFIG) and Credit Enhancement for Charter School Facilities (CECSF) program. Funding from these programs is received by charter schools in many other states, including Arizona, California, Colorado, Florida, Hawaii, Massachusetts, Minnesota, New Mexico, Pennsylvania, and Utah, along with the District of Columbia (LISC, 2007). Additionally, simply providing charter schools with enough money to allow them to leverage 20 percent of the equity for facilities could save charter schools hundreds of thousands of dollars in interest payments. By taking into consideration a school’s projected enrollment, rather than its current enrollment alone, schools may be prevented from having to move from facility to facility. One school administrator noted, “if a lender could see that every single year that we exist we have a pool of money specifically for facilities they would be much more inclined to lend to us.” Providing a stable stream of funding specifically for facilities costs would not only provide a more equitable funding system for the children who attend charter schools but also give charter schools a more effective method of acquiring additional capital for large scale facilities acquisition. Furthermore, charter schools would save time and effort currently spent searching for facilities and funding, freeing up more of their operating budgets for expenditures directly related to instruction.

Recommendation #2: Maintain Charter Renewal System

While the relatively short tenure of a school’s charter may adversely impact its ability to secure loans, this oversight process brings accountability into the education landscape, a countervailing advantage. For this reason, we recommend:

- Maintaining the current system of charter renewal implemented by the NJDOE.

Few lenders and charter school operators thought that increasing charter length would make charter schools more attractive to private lending organizations. Yet other experts suggested that charter length was less relevant to other factors such as experience, quality of the education program, enrollment levels, and future viability. Because in theory and in practice, the NJDOE may revoke a charter at any time, the charter renewal process...
should have little to no effect on the willingness of private lending organizations to work with charter schools. More relevant is enriching lenders understanding of charter schools and the renewal and revocation process. The elimination of misunderstanding is expected to improve the operation of the lending market more than arbitrary changes in charter lengths.

**Recommendation #3: Improve the Lending and Borrowing Market**

CDFIs have the expertise and flexibility to facilitate efficient and creative financing for charter school facilities. Relative to the controversial School Construction Corporation, the expertise of CDFIs would provide technical assistance in a timelier manner than the state program. One interviewee suggested that the allotment of the interest earned in one day from a $2.5 billion bond initiative to build and renovate inner city schools would be enough for their CDFI to invest in a number of charter school facility projects. We recommend:

- The State of New Jersey provide funds directly to CDFIs that are earmarked for investing in and loaning to charter schools.

**Recommendation #4: Encourage Charter School Synergy to Reduce Costs**

It takes considerable time and knowledge to open and administer a charter school. Because each charter school is independent and relatively small, the learning curve is steep. Start-up costs could be reduced if charter schools cooperated more generally and made a greater effort to share institutional knowledge. For example, purchasing textbooks for 2,000 students in 10 schools is likely to be cheaper than if each school purchased its own books in smaller volumes. Another outgrowth of this cooperation could be the formation of a “charter school incubator,” a large facility capable of housing several start-up charter schools at one time. Here our recommendations include:

- Encourage charter schools to work together through a cooperative organization; and
- Pilot study the creation of a charter school incubator, to house charter schools with newly granted charters.

Because charter schools are generally small, there is much to gain from charter schools acting cohesively to realize certain economies of scale. Though the New Jersey Charter School Association fills some of this need, charter schools acting together would have more resources at their disposal than individual charter schools. This is the most reasonable and easily attainable of our recommendations and should be a top priority for charter schools statewide.

A charter school incubator would significantly reduce facilities costs for charter schools with newly granted charters because it would allow them to avoid spending time searching for a facility and avoid being required to lease a space that requires significant leasehold improvements. They would also benefit from the guidance and institutionalized knowledge of experienced charter schools, while also building a charter school community spirit that might translate into organized advocacy. Such a facility in cities like Newark or Trenton would allow the administrators of each school to concentrate their efforts on educational matters, rather than being diverted to finding a facility.

**Recommendation #5: Promote Efficiency through Charter and Public School Cooperation**

Cooperation between charter schools and public school districts would increase efficiency by renting empty and unused district space to charter schools. While this type of cooperation exists in other states, it is not as common in New Jersey. It would benefit both parties to have charter schools occupy this unused space, even at below market rates. Therefore, we recommend that:
• Upon formal public request from a charter school, public school districts should be required to provide information regarding the amount and location of current unused space within their school facilities.

School districts would benefit by receiving funds for a space that otherwise would have gone unused. The charter school would benefit by being located in facilities designed for educational purposes and that were not in need of significant renovations, reducing the search costs associated with finding a suitable facility, and perhaps, most importantly, reducing the cost of the facility itself.

Conclusion

Our four-month study of charter school facility financing suggests that implementing the above recommendations would provide the best opportunity to establish equity between charter and traditional public schools. The current inequalities create a strain on charter schools and create inefficiencies and crowds out instructional expenditures. If these inequalities remain, New Jersey charter schools will continue to balance the competing needs of maintaining their facilities and providing a quality education to the detriment of their students.
Appendix A

Works Cited


Works Consulted


# Appendix B

Comparison of Charter School Total Spending to its Home District

<table>
<thead>
<tr>
<th>Charter School</th>
<th>Home District</th>
<th>Year Founded</th>
<th>Total Charter Per Pupil Spending</th>
<th>Total Home District Per Pupil Spending</th>
<th>Charter Spending as a Percentage of Home District Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academy Charter School South Belmar</td>
<td>1998</td>
<td>12,551</td>
<td>18,426</td>
<td>68.1%</td>
<td></td>
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<tr>
<td>Camden Academy Charter High School Camden</td>
<td>2001</td>
<td>11,743</td>
<td>15,338</td>
<td>76.6%</td>
<td></td>
</tr>
<tr>
<td>Camden’s Promise Charter School Camden</td>
<td>1998</td>
<td>14,617</td>
<td>15,338</td>
<td>95.3%</td>
<td></td>
</tr>
<tr>
<td>Charter-Technical H.S. for Prf. Arts Linwood</td>
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<td>11,111</td>
<td>12,623</td>
<td>88.0%</td>
<td></td>
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<tr>
<td>Classical Academy Charter School of Clifton Clifton</td>
<td>1999</td>
<td>9,441</td>
<td>11,149</td>
<td>84.7%</td>
<td></td>
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<td>CREATE Charter School Jersey City</td>
<td>2001</td>
<td>10,790</td>
<td>15,758</td>
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<td>Discovery Charter School Newark</td>
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<td>15,734</td>
<td>17,306</td>
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<tr>
<td>East Orange Community Charter School East Orange</td>
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<td>11,325</td>
<td>15,607</td>
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<td>Elysian Charter School of Hoboken Hoboken</td>
<td>1997</td>
<td>12,735</td>
<td>16,012</td>
<td>79.5%</td>
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<tr>
<td>Emily Fisher Charter School of Advanced Studies Trenton</td>
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<td>Englewood on the Palisades Charter School Englewood</td>
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<td>13,911</td>
<td>18,907</td>
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<td>Freedom Academy Camden</td>
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<td>10,490</td>
<td>15,338</td>
<td>68.4%</td>
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<tr>
<td>Galloway Community Charter School Smithville</td>
<td>2000</td>
<td>8,770</td>
<td>10,781</td>
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<td>Gray Charter School Newark</td>
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<td>9,957</td>
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<tr>
<td>Greater Brunswick Charter School New Brunswick</td>
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<td>8,941</td>
<td>13,852</td>
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<tr>
<td>Hoboken Charter School Hoboken</td>
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<td>14,412</td>
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<td>Hope Academy Charter School Neptune</td>
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<td>International Charter School of Trenton Trenton</td>
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<td>Jersey City Community Charter School Jersey City</td>
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<td>10,199</td>
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<td>Jersey City Golden Door Charter School Jersey City</td>
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<td>Lady Liberty Academy Charter School Newark</td>
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<td>10,711</td>
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<td>LEAP Combined Charter School Camden</td>
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<td>Learning Community Charter School Jersey City</td>
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<td>Liberty Acad.(Community) Charter School Jersey City</td>
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<td>11,522</td>
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<tr>
<td>School Name</td>
<td>Location</td>
<td>Start Year</td>
<td>Enrolled</td>
<td>Total Enrollment</td>
<td>Graduation Rate</td>
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<tr>
<td>----------------------------------------------------</td>
<td>----------------</td>
<td>------------</td>
<td>----------</td>
<td>------------------</td>
<td>-----------------</td>
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<tr>
<td>Maria L. Varisco-Rogers Alternative Charter School</td>
<td>Newark</td>
<td>1999</td>
<td>11,082</td>
<td>17,306</td>
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<td>Marion P. Thomas Charter School</td>
<td>Newark</td>
<td>1999</td>
<td>11,236</td>
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<td>64.9%</td>
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<td>New Horizons Community Charter School</td>
<td>Newark</td>
<td>1999</td>
<td>10,745</td>
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<td>62.1%</td>
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<td>Newark Charter School</td>
<td>Newark</td>
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<td>10,149</td>
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<td>58.6%</td>
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<td>North Star Academy Charter School of Newark</td>
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<td>1997</td>
<td>11,616</td>
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<td>Oceanside Charter School</td>
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<td>12,153</td>
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<td>PACE Charter School of Hamilton</td>
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<td>7,844</td>
<td>10,667</td>
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<td>Paterson CS Science</td>
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<td>10,025</td>
<td>15,514</td>
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<td>PleasanTech Academy Charter School</td>
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<td>10,568</td>
<td>17,212</td>
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<td>Princeton Charter School</td>
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<td>12,896</td>
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<td>Queen City Academy Charter School</td>
<td>Plainfield</td>
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<td>12,689</td>
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<td>Red Bank Charter School</td>
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<td>Robert Treat Academy Charter School</td>
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<td>10,534</td>
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<td>Schomburg Charter School</td>
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<td>Soaring Heights in Jersey City Charter School</td>
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<td>10,795</td>
<td>15,758</td>
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<td>Sussex County Charter School for Technology</td>
<td>Sparta</td>
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<td>9,657</td>
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<td>TEAM Academy</td>
<td>Newark</td>
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<td>10,699</td>
<td>17,306</td>
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<td>Teaneck Community Charter School</td>
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<td>12,467</td>
<td>16,470</td>
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<td>Trenton Community</td>
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<td>Unity Charter School</td>
<td>Morristown</td>
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<td>12,214</td>
<td>17,171</td>
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<td>University Academy Charter School</td>
<td>Jersey City</td>
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<td>Village Charter School</td>
<td>Trenton</td>
<td>1999</td>
<td>11,562</td>
<td>16,505</td>
<td>70.1%</td>
</tr>
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</table>
Appendix C

Glossary

Community Development Financial Institution (CDFI)
A Community Development Financial Institution, or CDFI, is defined by the U.S. Department of Treasury’s Community Development Financial Institutions Fund as an entity that has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a nongovernmental entity. In general, CDFIs seek to provide credit, financial services, and other services to underserved markets or populations.

Credit Enhancements
These include methods to reduce the risk taken on by a lending institution in order to make the loan a viable credit risk. Some examples include collateralization, third party loan guarantees, or credit insurance.

Credit Enhancement for Charter Schools Facilities Program
As described by the USDOE, this program provides grants to eligible entities to leverage funds through credit enhancement initiatives in order to assist charter schools in using private sector capital to acquire, construct, renovate, or lease academic facilities.

Intermediary Lending
Most commonly, this term refers to lending from one financial institution to another, who then loans these funds. This is seen when CDFIs or similar entities receive intermediary lending from large commercial banks to avoid the direct risk of making community development loans.

Leasehold Improvements
This refers to renovations or other improvements that make a facility more useful or to lengthen its lifespan, paid for by the lessee of a facility. Common for charter schools, this term is often applied when a school renovates an existing structure to make its use viable in a school setting.

New Jersey School Development Authority
See New Jersey School Development Corporation.

New Jersey School Development Corporation (SDC)
The New Jersey School Development Corporation is the precursor to the School Development Authority (SDA). Seeking to update and improve school facilities statewide, about $7.1 billion worth of projects were completed under the original format. Amid controversy over the use of the funds, the entity has been reorganized and is now referred to as the New Jersey School Development Authority or SDA.

Temporary Debt
A term from the New Jersey Charter School Program Act of 1995 that indicates charter schools may take on short-term debt but only when receipt of those funds is anticipated.
**Working Capital Finance**
In general, this refers to short-term needs of capital, such as maintaining operability. There are many different ways to acquire this type of financing, and it is often easier than acquiring a traditional loan. An example is for a school needing money to purchase supplies for an entire year. While the supplies can be paid off over the course of the year, it is difficult to pay for them upfront.

**Acronyms**

**CDFI** Community Development Financial Institution

**CECSFP** Credit Enhancement for Charter Schools Facilities Program

**NJCDC** New Jersey Community Development Corporation

**NJCSPA** New Jersey Charter School Program Act

**NJDOE** New Jersey Department of Education

**NJEDA** New Jersey Economic Development Authority

**NMTC** New Market Tax Credits

**SCC** Schools Construction Corporation

**SDA** Schools Development Authority
Appendix D

Interviewee List

Norm Atkins, CEO
Uncommon Schools

Elyse Balboni, Educational Facilities Financing Center
Local Initiatives Support Corporation

Irene Cooper-Basch, Executive Director
Victoria Foundation

Harriet Beckerman, Education Consultant
Former Cherry Hill School District administrator

Dudley Benoit, Vice President, Community
Development Intermediaries Lending
JP Morgan Chase

Jeff Crum, Director of Real Estate
New Jersey Community Development Corporation

Ross Danis, Program Director Education
Geraldine R. Dodge Foundation

Joe DellaFave, Executive Director
Ironbound Community Center

Dave Gibson, Vice President and Lending Manager
PNC Community Development Investments

Jessani Gordon, Executive Director
New Jersey Charter Public Schools Association

Brian Keenan, President
Real Estate Advisory & Development Services

John Kinghorn
Prudential Social Investment

Danielle LeBlanc
Local Initiative Support Corporation

Lori Matheus, Vice President
New Jersey Economic Development Authority

Gordon MacInnes, Visiting Fellow, Princeton University
Former Assistant Commissioner for Abbott, New Jersey Department of Education

Heather Ngoma, Director
Charter School Resource Center

Hannah Richman, Director, Friends of TEAM
TEAM/Rise Academy Charter Schools

Joan Ponessa, Senior Consultant
Education Law Center

Rick Pressler, Executive Director
Greater Brunswick Charter School

Gloria Bonilla Santiago, Chief School Administrator,
professor at Rutgers-Camden
LEAP Academy

David Scheck, President
New Jersey Community Capital

Sara Vernon Sterman
The Reinvestment Fund