



MINNESOTA SPONSOR ASSISTANCE NETWORK

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The Cost of Sponsoring of Minnesota Chartered Schools

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Introduction

Minnesota law requires that all schools created under the statutory chartering provisions have their charter granted by an organization referred to as a “sponsor.” The sponsor has a number of key functions that are identified in a guide recently published by Education/Evolving titled, *Sponsoring Chartered Schools: A Resource Guide for Minnesota Chartering Agencies*. An outline of these key functions, accompanied by an estimate of the amount of time sponsors spend on each function, is included later in this paper.

The purpose of this paper is to estimate the cost of implementing these key sponsoring functions in Minnesota. While how a sponsor addresses each function varies by the individual chartered school being sponsored, the number of years the school has been in operation and the overall success of the school, this paper attempts to accommodate those various factors.

The chartered school sponsor’s role is unique in public education. While sponsoring has been a part of the chartering model since the beginning, the vital importance of the sponsor has not been fully recognized until fairly recently.

The sponsor has a number of key roles which have a significant impact on the quality of the chartered school. It is important to understand that it is the sponsor, not the legislature or the commissioner, that actually grants the charter that enables the school to begin operation.

Likewise, it is the sponsor that has the authority to require improvement and ultimately to withdraw the charter. How the sponsor goes about the important business of making those decisions is what quality sponsoring is all about.

The sponsor cannot “cut corners” when it comes to the implementation of its duties. Too much is at stake, primarily for the students, but also for the operator and the sponsor as well.

The sponsor must be certain it is devoting the resources necessary to competently carryout its functions. The chartered school board and the operator should insist that the sponsor perform its duties in a quality manner.

The Minnesota Legislature has recognized that sponsoring does cost money. However, when the sponsor revenue provision was added to Minnesota’s charter law in the mid 1990’s, the important role of the sponsor was not fully understood.

That provision, which remains unchanged, states that during the initial three years of the chartered school’s operation, the sponsor may charge \$30 per pupil up to a maximum of \$10,000 per school per year for sponsor oversight duties. After three years, this amount is reduced to \$10 per pupil with a maximum of \$3,500 per school per year.

When these financial provisions were enacted, the Legislature did not have a database to draw upon to estimate the costs associated with sponsoring. Therefore, it should not be concluded that the current formula was developed based on information of actual sponsoring costs.

Cost Assumptions

The cost assumptions in this study are based on an analysis of several sponsors including Volunteers of America, Augsburg College and the University of St. Thomas. The estimates are based on the following:

1. Cost is based on the amount of time devoted to key sponsoring activities. This professional and clerical cost as well as travel to the schools sponsored.
2. Sponsoring organizations will contribute some “pro bono” work in addition to the itemized costs. This includes areas such as sponsor administration i.e. work space, utilities; learning

about sponsoring, developing initial sponsor procedures for the organization, etc.

3. Hourly cost estimates will vary based on the sponsoring organization. Therefore, several estimates at differing levels are provided.

4. The number of students attending the chartered school is not a significant factor during the startup phase and is of moderate impact during a school's actual operation.

5. There are some economies of scale with the number of schools sponsored, but because each school is an independent organization, the "economy of scale" is based more on the efficiency of the sponsor because of its sponsoring experience than on what happens at the various schools being sponsored.

6. If after three years the school is functioning at a competent level as evidenced by its meeting student performance,

governance and financial and management expectations, sponsor time, and therefore its costs, will be reduced. At the same time, if the school is not producing the expected results, sponsor time will likely be increased.

7. If the sponsor determines to withdraw the charter and terminate the school, it is likely that this decision will require substantial time and resources. The cost estimate below does not include such circumstances.

8. The time projections may result from a team of professionals or a single individual with sponsoring duties.

9. The cost estimates do not include any "purchase of services" by the school from the sponsor. Such services would include costs not associated with the sponsorship function.

Estimated time and annual costs of sponsoring functions

Sponsoring Function or Activity	Application Year*	Initial Years*	Renewal Year*	Ongoing Years*
1. Proposal Discussion/Review/Decision to sponsor	32	--	12	--
2. Administrative support background checks, affidavit preparation, etc.	3	--	--	--
3. Commissioner (MDE) approval process	3	--	--	--
4. Contract development revision	4	2	4	2
5. Plan implementation review (bus & space plans, enrollment projections, fed grant)	12	--	--	--
6. Start-up monthly planning/assistance meetings	16	--	--	--
7. Board meetings (4-6 meetings)	12	12	12	8
8. Monthly progress report review	9	14	14	9
9. Oversight visits (in application year this function similar to #6)	9	40	48	30
10. Review monthly quarterly financial reports	6	12	12	9
11. Review annual financial audit	--	2	2	2
12. Review/respond to annual report (goal attainment)	2	10	--	10
13. Same as #12 but for renewal purposes	--	--	16	--
14. Review next year budget proposal	4	4	4	4
15. On-call assistance	18	48	30	10
Total Hours	130	144	164	84
At \$45 per hour	\$5,850	\$6,480	\$7,380	\$3,780
At \$50 per hour	\$6,500	\$7,200	\$8,200	\$4,200
At \$55 per hour	\$7,150	\$7,920	\$9,020	\$4,620

* Estimate average number of hours to carry out sponsoring each function or activity

Discussion

During the initial start-up year, Minnesota law does not provide for any revenue to the sponsor because the Minnesota law is pupil driven and in the start-up year, the school has not yet enrolled any pupils. Some schools are in the start-up phase for 18 months or even two years.

Other sources of revenue must be found to cover sponsor costs during this period. The Minnesota Department of Education agrees that a school may use some of its initial federal "start-up" funding to pay for sponsor costs associated with the start-up activities during these years.

Once the school becomes operational, in order for the sponsor to be reimbursed for its costs under current law using the middle estimate (\$50 per hour), its enrollment would need to be at least 230 pupils (230 pupils x \$30/pupil = \$7,200) in order to cover the cost of sponsoring.

Even taking the \$45 per hour cost estimate, the school would need to have 216 students to cover the \$6,480 cost estimate. The \$55 per hour would require 264 students to generate the \$7,920 sponsorship cost. Few charter schools in Minnesota begin with 230-264 students and some will never have that many.

During the third year (the renewal year), costs grow to \$8,200 which equates to 274 pupils for the \$50/hour estimate, 300 students for the \$55/hour estimate and 246 for the \$45 estimate. Again, fewer than half of Minnesota chartered schools have this level of enrollment.

After the third year of operation, most schools should be fairly well established and function well as evidenced by it meeting student performance goals and operational goals.

However, some clearly are not. In such cases, the sponsor will likely have renewed the charter for only one or two years as improvements are required. These improvements will likely require added sponsor time.

Regardless of the performance of the school, Minnesota law has a 67 percent reduction in sponsor fees from \$30 to \$10 per pupil. Even if the school is performing well and sponsor oversight can be reduced, Minnesota law only permits a maximum of \$3,500 to be paid for sponsoring beginning with the fourth year of operation.

That assumes it has an enrollment of at least 350 students at \$10 per student which is rarely the case. Our estimate of cost if the school is operating successfully is \$3,780 at \$45/hour, \$4,200 at \$50/hour and \$4,620 for \$55/hour.

It can therefore be concluded that:

1. No state funded revenue stream currently exists for sponsors for the period that the chartered school is in the start-up phase even though sponsors incur significant costs.
2. The state revenue during the initial three years of operation, based on current state law, is sufficient only if the enrollment of the school is considerably higher than what is currently the case.

3. After three years of operation, the current \$3,500 cap places significant restrictions on sponsorship.

Models in Other States

Provisions for financing sponsor costs and these amounts vary significantly among the 40 states that now have charter school laws.

As noted above, in Minnesota, \$30 or 0.65 percent of the general education revenue (\$4601 per pupil) is allocated for sponsoring during the first three years.

In Michigan, up to five percent of the basic education revenue is allocated to the sponsor. Central Michigan University, which is the largest sponsor in Michigan with 56 schools and approximately 25,000 students, generates approximately \$5 million for their oversight function.

The Arizona State Board for Charter Schools has a budget of \$700,000. This Board is the sole sponsor of chartered schools in Arizona.

In Ohio, the law does not include parameters for sponsoring costs and leaves that decision to the sponsor and the operator.

The State University of New York (SUNY) Charter School Institute has access to up to five percent of the general revenue of schools it sponsors.

Recommendations

1. The Minnesota Department of Education accept the sponsoring cost estimates in this paper as the guide for approving sponsor costs in the start-up applications from chartered schools for the initial year before state revenue is available because students are not yet attending the school. Unless federal guidelines are change, it is understood that the federal revenue could only be used for assistance services provided by the sponsor to the school and not sponsor oversight functions.
2. The Minnesota Legislature is encouraged to consider the sponsor cost estimates in this study and amend current law consistent with the \$50 per hour estimate which is the average cost estimate.
3. The MDE should review its guidelines for "Federally Funded Dissemination Grants." Just as chartered schools are

developing academic and other practices worthy of dissemination, those schools and their sponsors are also developing quality sponsoring practices that merit dissemination. Clearly, these practices developed and provided by sponsors and the schools they have chartered are beneficial to other sponsors and to the schools they sponsor as well. As a result of this effort, it is probable that quality and efficient oversight models would be developed and subsequently used by sponsors and schools resulting in improved and perhaps reduced sponsoring costs.

4. To encourage efficiency, sponsors should be encouraged to combine with other sponsors for select functions in specific areas of expertise i.e. evaluation design, school application review, annual report analysis, regular onsite reviews, and financial oversight. A “Cadre” of providers could be identified and trained and be available on a contract basis for sponsorship functions in which they are expert.

5. Discussions with the United States Department of Education should be initiated to see how federal grants or federal law changes might be pursued to aid in financing sponsoring in the nation.

6. Discussions should be initiated with the National Association of Charter School Authorizers (NACSA) to determine how sponsor quality can be improved and be made more efficient. Foundation funding should be solicited for this effort.

Conclusion

This paper attempts to identify the key functions performed by Minnesota’s sponsors of chartered schools and from those data estimate the actual cost of sponsoring. While the costs will vary among sponsors and schools, we believe the estimates provided in this paper are a reasonable estimate to assure that quality sponsoring occurs in Minnesota.

Comments or questions

Comments or questions regarding this paper or the Chartered Schools Sponsor Assistance Network may be directed to Robert Wedl, the Network’s Director, at: robert_wedl@yahoo.com.