



Tennessee Charter School Funding

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In February 2016, the chair of the Senate Education Committee requested that the Comptroller's Office verify whether Tennessee's charter schools have received the correct funding from their authorizing school districts. The Comptroller's Office of Research and Education Accountability (OREA) collected and analyzed five years of enrollment and funding data from the Tennessee Department of Education (TDOE) and authorizing school districts; reviewed state law, State Board of Education (SBOE) rules, Department of Education policies, and charter school audits; and interviewed Department of Education and school district staff.^A See [Appendix A](#) for OREA's methodology.

OREA has concluded, based on research to date, that there is insufficient clarity, transparency, and verification associated with the calculation and receipt of charter school funding in Tennessee. State law, SBOE rules, and TDOE policies do not currently provide clear and complete definitions of formula components districts use to calculate charter school funding. The situation has resulted in a lack of uniformity in calculating funding for charter schools across the state.

For these reasons, the Comptroller's Office currently cannot definitively answer whether the state's charter schools have received the correct amount of funding from their authorizing districts.

OREA identified several key issues:

- 1. Clarity: Formula. There is a lack of clarity and consistency among state law, State Board of Education rules, and Tennessee Department of Education policies on the formula districts use to calculate the per-pupil funding for charter schools.** With limited guidance from TDOE and inconsistencies

^A OREA focused the majority of its research on the four district authorizers: Hamilton County Department of Education, Knox County Schools, Metro Nashville Public Schools, and Shelby County Schools. Many of the conclusions reached in this report, however, may also impact charter schools authorized by the Achievement School District. For more information on Tennessee's charter schools and the three types of authorizers in the state, visit www.comptroller.tn.gov/OREA for past reports by OREA.

in state law and associated SBOE rules, districts have used different methods at different points in time to calculate per-pupil funding, the amount of money allocated for each student and distributed to charter schools. Consequently, charter schools in different districts may be receiving more or less than they are entitled to receive. With no definitive formula verified by the state, OREA cannot determine a correct funding amount or whether each district is calculating and transferring the correct amount of funding to its charter schools.

On June 13, 2016, the Department of Education issued a memo to districts regarding the calculation of per-pupil funding for charter schools, stating TDOE “would like to clarify the methodology by which the per pupil amount is determined” for the 2015-16 fiscal year.¹ The memo has prompted questions from district officials about charter school funding calculations. A second memo issued July 19, 2016, directed districts to “continue to operate and fund charter schools in the district according to the policies and procedures implemented in their budget planning process for the 2015-16 school year.”² See [Appendix B](#) for copies of the memos.

- 2. Clarity: Growth funds. It is unclear how growth funds are to be distributed to charter schools.** Districts with significant increases in enrollment receive “growth payments” from the state in February and June for their additional students.³ SBOE rule is unclear as to how districts should distribute growth funds to charter schools. The rule states that “payments to charter schools shall be adjusted by determining pro-rata shares of adjusted distributions.”⁴ It is unclear how “pro rata” applies to this distribution, however. Currently, districts distribute an equal payment of growth funding regardless of their enrollment trends. If the rule intends that growth money should be distributed proportionately based on each school’s growth, districts are not distributing growth funding in this manner.
- 3. Transparency: Local revenues. There is a lack of transparency regarding which local revenues are included in the per-pupil calculation for charter schools.** State law requires that charter school allocations “shall be based on one hundred percent (100%) of state and local funds received by the LEA, including current funds allocated for capital outlay purposes, excluding the proceeds of debt obligations and associated debt service.”⁵ In practice, however, per direction from TDOE, some local revenue funds are excluded from the per-pupil calculation of operating funds that are transferred to charter schools. The resulting lack of transparency in the funding process creates a perception of inequity.

4. Verification. No verification process of either the calculation of funding or the receipt of charter school funds exists at the state level to confirm official funding figures. Currently, there is no transparent, clear, and publicly accessible system at the state level for verifying the calculation of the funding amount charter schools should receive; additionally, there is no process to ensure the schools received that amount. While state law requires the Commissioner of Education to approve any adjustments in payments from a school district to a charter school if local revenues increase or decrease from budgeted figures, TDOE does not have a system in place to verify these adjustments as of the 2015-16 school year.⁶ Because the Department of Education does not verify districts' distributions to charter schools, districts are the sole authority in whether charter schools received the correct amount of funding. Additionally, both TDOE and districts should ensure that the method for calculating all charter funds is publicly available, allowing charter schools or other parties to independently verify funding.

Issue 1: Clarity in the calculation of funding for charter schools

Calculating funding for charter schools is complicated in part because the formula's three components, described below, may change throughout the year for different reasons. Given this complexity, it is important that state instruction and guidance to school districts is sufficiently clear and transparent regarding which numbers to use and how to calculate charter school funding under all scenarios to ensure uniformity across the state.

When reviewing data provided by TDOE and authorizing districts, OREA identified several variations among district calculations. Districts calculate their tenth and final payment to charter schools – a “true up” payment that reconciles disbursement for the entire year – differently.

Charter Funding Calculation

The school district first calculates the amount of money allocated for each student, known as the per-pupil amount. This per-pupil amount is based on state and local revenue and student enrollment, known as Average Daily Membership (ADM).⁷ The district then multiplies the per-pupil amount by the number of students enrolled at the charter school. The charter school's funding for the school year is then

$$\text{charter school funding} = \left[\frac{\text{state and local revenue}}{\text{overall district ADM}} \right]_{\text{per-pupil amount}} \times \text{charter school ADM}$$

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

There are three components to the charter school funding equation:

- 1. State and local revenue.** The equation's numerator is the total pool of eligible money used in calculating the per-pupil funding for charter schools. It includes the state and local portions of the BEP, plus any local contributions above and beyond the required local portion of the BEP.^B
- 2. Overall district ADM.** The equation's denominator is the district's overall enrollment of students, including both traditional and charter school students. This ADM figure is used by the Department of Education to generate BEP allocations for each school year and is used by districts as the starting point for charter school funding calculations. The overall district ADM is a weighted average of enrollment in months 2, 3, 6, and 7 of the previous school year: BEP funding for school year 2015-16, for example, is based on the district's enrollment in school year 2014-15.
- 3. Charter school ADM.** The equation's multiplier is each individual charter school's current year enrollment. Unlike the overall **district ADM** (the formula's denominator), charter school ADM is not a weighted average of the previous school year. Charter school ADM is instead the weighted average of the actual number of students enrolled in the charter school for the *current* school year.

^B School districts pass through to charter schools all components of the state share of the BEP except capital outlay. Charter schools receive their portion of the state share of BEP capital outlay directly from the state. For a discussion of adding growth funding into the numerator, see Issue 2. For an explanation of "eligible" local money given to charter schools, see Issue 3.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Example A: Basic calculation

For school year 2015-16, Volunteer County School District receives \$30 million in state BEP funds. The county's required local match is \$15 million, and the school district's local funding body appropriates \$5 million in addition to the local match. Thus, total **state and local revenue** is **\$50 million**.

Volunteer County's **district ADM**, which generates its BEP allocation for school year 2015-16, is based on the district's enrollment in the previous year, school year 2014-15. The weighted average of students in the prior year is **6,250 students** for the entire district.

The amount Volunteer County spends on each student is

$$\frac{\$50,000,000}{6,250 \text{ students}} = \$8,000 \text{ per pupil}$$

James K. Polk Charter School reports **50 students enrolled** at the beginning of the year. The school will receive \$8,000 for each of those **50 students**, or \$400,000 total.

The overall funding equation is

$$\frac{\$50,000,000}{6,250 \text{ students}} \times 50 \text{ students} = \$400,000$$

James K. Polk Charter School will receive this \$400,000 in 10 payments of \$40,000 each throughout the school year.^c

^c *Tennessee Code Annotated* 49-13-112(a) requires districts to distribute the portion of local funds in no fewer than nine equal installments. SBOE Rule 0520-14-01-.03(2) requires 10 payments.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Numerator: State and Local Revenue

There are two components of the charter funding equation's numerator: state revenue and local revenue.⁸ For the purposes of this report, "state revenue" refers to the state portion of the BEP.^D As noted earlier, the BEP is based on a district's total enrollment for the previous school year ("prior year ADM") rather than the district's enrollment in the current school year ("current year ADM").⁹ For example, the funding a district receives for school year 2015-16 will be based on that district's enrollment in 2014-15. Thus, the BEP "lags" one year behind actual enrollment. State BEP payments may increase beginning in January if the cost of health insurance premiums rises;¹⁰ however, this increase is driven by the cost of health care and not by a district's enrollment.

The state recognizes districts that experience significant growth in enrollment by providing additional "growth" funding separate from the BEP. The total amount of growth funds disbursed to districts is dependent on additional state appropriations. As of the 2015-16 school year, growth payments were made in February and June to districts experiencing 1.6 percent or more growth over the previous year's ADM.¹¹ See Section 2 for more information on growth funding.

In addition to the state portion of the BEP, the funding formula also generates a "minimum" local match that local entities are required by law to meet. In practice, many local funding bodies contribute more money than is required by the minimum local match, and these additional appropriations are included in the numerator.

Unlike the state BEP component, however, local revenue is not necessarily constant throughout the year. Local revenue is composed of many different taxes and fees, which may come in above or below budgeted amounts and may be collected at different times throughout the year; for example, the district's budget takes effect each new fiscal year on July 1, while most property tax revenues are collected through the following February.¹²

The sum of state and local revenues – including any funds above and beyond the required local match – constitute a district's **state and local revenue** in the charter funding equation.¹³ If actual local revenue earmarked for education is higher or lower than projected, districts update this figure in their October, February, and June payments to charter schools.¹⁴ This will change the per-pupil amount, and thus the disbursement to charter schools.

^D Because the state directly distributes its portion of BEP capital outlay to each charter school, the state's portion of BEP capital outlay component is subtracted from the state revenue amount before calculating the overall district funding for charter schools.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Example B: Changing the numerator, **state and local revenue**

For all of school year 2015-16, Volunteer County's state BEP funds stay constant at \$30 million. The county brought in an extra \$5 million in taxes earmarked for schools, however, and collected \$20 million in local revenue rather than the \$15 million originally budgeted. With the additional \$5 million above the minimum local match, total **state and local revenue** for school year 2015-16 is then **\$55 million** instead of the projected \$50 million.

Thus, Volunteer County updates its per-pupil amount based on its increased local revenue, which in turn affects the money given to charter schools. The new per-pupil amount is

$$\frac{\$55,000,000}{6,250 \text{ students}} = \$8,800 \text{ per student}$$

Based on this new per-pupil amount, James K. Polk Charter School, with its **50 students**, will receive \$440,000. The overall funding equation is

$$\frac{\$55,000,000}{6,250 \text{ students}} \times 50 \text{ students} = \$440,000$$

where the **state and local revenue** is the only element that has changed from Example A.

Based on the updated per-pupil amount, James K. Polk Charter School will receive \$440,000 for the entire year. If the school has already received five payments of \$40,000 based on the original estimate of \$400,000 for the school year, the school's remaining five payments will be \$48,000. James K. Polk Charter School's 10 payments will then total \$440,000 for the 2015-16 school year.

Multiplier: Charter School ADM

Charter school ADM is the number of students enrolled at a charter school each month. The first payment to charter schools is based on a *projected*, rather than actual, **charter school ADM**. Otherwise, new charter schools would receive no funding for the first month's payment, and charter schools adding a new grade would not generate funding in the first month's payment for students in the additional grade.

Throughout the school year, payments to charter schools are updated based on the weighted average ADMs for the current year. Thus, charter school funding is adjusted in real time based on the individual school's enrollment.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Example C: Changing the multiplier, charter school ADM

In school year 2015-16, Volunteer County does not change its **state and local revenue**. It collects exactly **\$50 million**, just as projected.

In January, however, five new students enroll in James K. Polk Charter School. The **school's enrollment** then increases from 50 to **55 students**.

Because neither **state and local revenue** nor **district ADM** has changed, the per-pupil amount remains the same: \$8,000 per student.^E James K. Polk Charter School, however, will receive more funding to account for the additional five students

$$\frac{\$50,000,000}{6,250 \text{ students}} \times 55 \text{ students} = \$440,000$$

Each of the 10 payments to charter schools is adjusted based on the **charter school's enrollment**. The first nine payments to James K. Polk Charter School are calculated as shown.

| Month | Charter School ADM | Per-Pupil Amount | Total Annualized Amount | Monthly Payment Amount |
|---|--------------------|------------------|-------------------------|------------------------|
| 1 | 50 | \$8,000 | \$400,000 | \$40,000 |
| 2 | 50 | \$8,000 | \$400,000 | \$40,000 |
| 3 | 50 | \$8,000 | \$400,000 | \$40,000 |
| 4 | 50 | \$8,000 | \$400,000 | \$40,000 |
| 5 | 55 | \$8,000 | \$440,000 | \$44,000 |
| 6 | 55 | \$8,000 | \$440,000 | \$44,000 |
| 7 | 54 | \$8,000 | \$432,000 | \$43,200 |
| 8 | 53 | \$8,000 | \$424,000 | \$42,400 |
| 9 | 53 | \$8,000 | \$424,000 | \$42,400 |
| Total Payments to James K. Polk Charter School | | | | \$376,000 |

Based on month-to-month changes of James K. Polk Charter School's **enrollment**, the school receives \$376,000 for its first nine payments.

^E District ADM is based on prior year enrollment so it does not change in this example, even if charter schools or other district schools receive new students during the current year.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

For the tenth and final payment, however, Volunteer County “trues up” the charter school’s funding with a final, weighted **charter school ADM** for the current year. Volunteer County obtains the final charter school enrollment figure by weighting ADMs from months 2, 3, 6, and 7. Month 2 is weighted at 12.5 percent, Month 3 at 17.5 percent, and Months 6 and 7 at 35 percent.¹⁵ This is the same weighting used in the BEP for districts.

James K. Polk’s **final weighted ADM** is calculated as shown.

| Month | Charter School ADM | Weight | Weighted ADM |
|--|--------------------|--------|--------------|
| 2 | 50 | 12.5% | 6.25 |
| 3 | 50 | 17.5% | 8.75 |
| 6 | 55 | 35% | 19.25 |
| 7 | 54 | 35% | 18.90 |
| Final Weighted Charter School ADM | | | 53.15 |

James K. Polk’s final, weighted charter school ADM is **53.15 students**. Thus, James K. Polk Charter School’s final funding equation is

$$\frac{\$50,000,000}{6,250 \text{ students}} \times 53.15 \text{ students} = \$425,200$$

James K. Polk Charter School will receive \$425,200 for the entire year. Since it has already received \$376,000, its tenth and final payment will be \$49,200. Because Month 6 had the highest enrollment of the year, with **55 students**, and is also weighted the most heavily at 35 percent, it increases the final payment, though the school had fewer students for the rest of the year.

If the final annualized amount is less than what the charter school has already received in payments, the charter school may owe money to the district.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Denominator: Overall District ADM

Overall district ADM is used to calculate the BEP. At the end of a school year, the Department of Education weights a district’s overall enrollment in months 2, 3, 6, and 7 to calculate a final, weighted total of overall district ADM in a school year. As noted previously, this ADM “lags” one year behind – BEP funds are based on prior year ADM rather than current year ADM.

Similar to the BEP, districts use the prior year district ADM figure as the denominator for the first nine payments to charter schools. By the tenth payment, however, the Department of Education has released the “new,” current year enrollment figure for that school year. In years past, TDOE advised districts to update the denominator in the funding equation to reflect the district’s current year ADM for the tenth and final payment to charter schools; in effect, by calculating the “true up” payment with the current year ADM, districts were calculating charter schools’ annual funding based on current year **district ADM**.

On June 13, 2016, the Department of Education released updated guidance regarding how school districts should calculate the tenth payment to charter schools.¹⁶ According to the new guidance, the calculation hinges on whether or not a district receives growth funding:

1. Districts that receive growth funds use the new, current year **district ADM** when calculating the tenth payment to charter schools and adjusting the nine previous payments.
2. Districts that do not receive growth funds continue using the prior year **district ADM**, so that all 10 payments to charter schools are based on the previous year’s figure.

This new guidance is a change in policy – previously, all districts, whether or not they received growth, were instructed by TDOE to calculate their final payment by method 1 above.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Example D: Changing the denominator, overall district ADM

For the first nine payments to James K. Polk Charter School in school year 2015-16, Volunteer County uses the numbers detailed above: **\$50 million** in local revenue, **6,250 students** in the district, and **50 students** attending James K. Polk Charter School.

The district's **6,250 district ADM** is based on the *previous* year, school year 2014-15. The Department of Education notifies Volunteer County that its enrollment has increased by 2 percent over the course of the school year, so that the district receives growth funding in February and June from the state. Its new, weighted ADM for the *current* year, school year 2015-16, is **6,375 students**.

Volunteer County must recalculate its charter school payments with the updated denominator. Although the district receives growth money from the state for increased enrollment, this funding is not added into the numerator in this example – for a discussion of growth funds in the charter funding calculation, see Section 2.

The new per-pupil amount is

$$\frac{\$50,000,000}{6,375 \text{ students}} = \$7,843 \text{ per student}$$

Thus, the per-pupil amount paid to charter schools has *decreased*, and James K. Polk Charter School, with its **50 students**, will receive \$392,157, as opposed to the original \$400,000. Volunteer County's final payment will be adjusted to reflect this, so that James K. Polk Charter School receives \$392,157 in total.

If James K. Polk's first nine charter school payments of \$40,000 each total \$360,000, the school will not receive \$40,000 for its last payment. Instead, it will receive \$32,157, so that its total for school year 2015-16 is \$392,157.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Finding: Lack of clarity for districts in calculating final payments to charter schools

To OREA analysts' knowledge, districts have been using both the numerator and the multiplier of the charter funding equation consistently: districts have updated their **state and local revenue** and **charter school ADM** correctly.

District practice with the denominator, **district ADM**, varies, however. While some districts followed previous TDOE guidance by updating their overall ADM from the prior year to the current year for the tenth and final payment to charter schools, some districts did not.

A key issue regarding charter school funding hinges on the question of updating **district ADM**: *Prior to the new guidance released in June 2016, were districts required to change the denominator of the per-pupil amount to the current year ADM versus prior year ADM for the tenth and final payment to charter schools?*

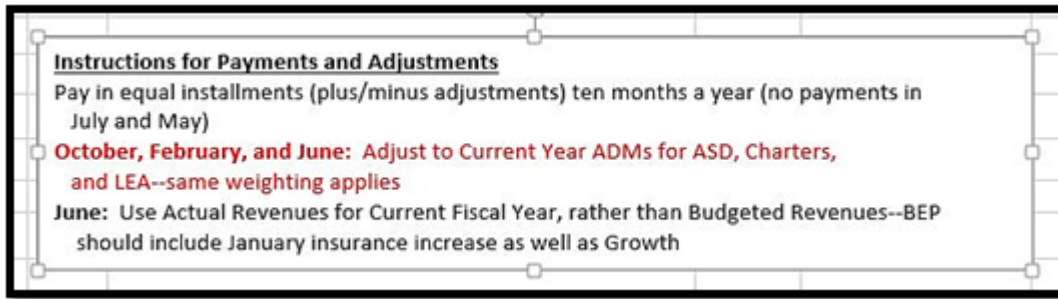
The Department of Education does not have written policies explicitly outlining the charter funding process. Until the June 2016 memo, TDOE maintained that districts must true up their final charter funding payments by both updating the multiplier, **charter school ADM**, to a current year weighted average, and updating the denominator, overall **district ADM**, to the current year figure versus the prior figure.

Three main areas guide charter school funding: state law, State Board of Education rules, and Department of Education policies. Taken together, however, these three sources appear to provide conflicting guidance regarding the denominator in the funding equation.

TCA 49-13-112(b)(2) states: "Student enrollments used in [charter school] allocations shall be for the same period used in allocating state funds to the LEA under the basic education program (BEP)." State Board Rule 0520-14-01-.03 similarly states: "Student enrollments used in allocations shall be for the same period used in allocating state funds to the LEA under the basic education program."

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

As the BEP calculates state funding on prior year ADM, the law and rule seem to indicate that a district calculates the formula using the prior year ADM as the denominator for all 10 payments. While there is limited official guidance on this point, TDOE states that changing the denominator at the end of the school year had always been standard practice prior to the June 2016 memo. TDOE refers to a spreadsheet bullet point as documentation for this practice. The bullet point reads:



Source: Office of Local Finance, Tennessee Department of Education, Charter and ASD Funding Guide, fiscal years 2013-16.

This guidance seems to conflict with state law and SBOE rule, which appear to maintain that all 10 payments are based on prior year ADM. Furthermore, the spreadsheet guidance from TDOE does not explicitly state which ADM figure(s) – **overall district ADM** or **charter school ADM** – should be updated in October, February, and June.

Differing interpretations of existing law and policy have led districts to calculate charter school funding differently. For the past several years, Shelby County Schools (SCS) calculated funding for its charter schools using the same **overall district ADM** for the prior year for all 10 payments. In 2016, TDOE required SCS to recalculate its funding for charter schools for the 2014-15 school year using the district's updated **district ADM** for the 2014-15 school year, rather than the 2013-14 figure it had previously used in the calculation. This change in the formula calculation resulted in SCS transferring an additional \$48.76 per pupil to its charter schools, \$517,000 in total, to reconcile funding for the 2014-15 school year.

TDOE's June 2016 memo ran contrary to the instructions and subsequent recalculation of funding for SCS in 2014-15. The memo hinged on updating the final payment to charter schools based on whether or not the district received growth funding that school year. Because SCS has been experiencing a decline in overall district enrollment, the district did not receive any growth funding for the 2014-15 school year. Therefore, requiring SCS to calculate the formula with the updated **district ADM** in 2014-15 involves a different calculation than the one TDOE instructed districts to use for 2015-16.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

TDOE issued a subsequent memo in July 2016 stating, in part:

The department has concluded there is insufficient clarity, transparency, and verification associated with the calculation and receipt of charter school funding in the state. State law, state board rules, and department policies do not adequately provide clear and complete guidance on the formula components and do not offer a definitive methodology to be used in calculating charter school funding.

Given this lack of clarity, the department is directing LEAs to continue to operate and fund charter schools in the district according to the policies and procedures implemented in their budget planning process for the 2015-16 school year and utilized to date for the 2015-16 school year.

The July memo allows districts to maintain the status quo for their funding processes in regard to charter schools. For the 2015-16 school year, SCS will calculate its funding using prior year (FY15) **district ADM** while Metro Nashville Public Schools (MNPS) will be able to use current year (FY16) **district ADM**. TDOE, which is responsible for disbursing all local and state funds to the ASD, will calculate funding for ASD schools using the current year (FY16) **district ADM** for SCS and MNPS.

With no definitive formula verified by the state, OREA cannot determine what the correct amount of funding should have been or whether each district is calculating and transferring the correct amount of funding to its charter schools.

Implications

Updating a **district's overall ADM** has different effects on charter school funding, depending on whether the district is gaining or losing students. In a district with declining enrollment, updating the district ADM from prior year to current year figures will result in a larger per-pupil number; the same numerator is being divided by a smaller denominator, leading to a higher per-pupil funding amount for charter schools.

In a district with increasing enrollment, however, the opposite is true. The district will calculate a smaller per-pupil amount, and the per-pupil funding total for charter schools will be lower.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Example E: Updating the denominator, **district ADM**, at the end of the school year

As illustrated earlier, Volunteer County bases its first nine payments to charter schools on its prior year **district ADM** of **6,250 students**. With **\$50 million** in **state and local revenue**, the per-pupil amount is

$$\frac{\$50,000,000}{6,250 \text{ students}} = \$8,000 \text{ per student}$$

James K. Polk Charter School, with its **50 students**, receives \$400,000 for the school year in the initial calculation.

Suppose Volunteer County gains students throughout the school year. For the tenth payment to charter schools, the Department of Education reports Volunteer County's final, current year **district ADM** as **6,375 students**. Although the district may receive growth money from the state for increased enrollment, this funding is not added into the numerator in this example – for a discussion of growth funds in the charter funding calculation, see Section 2.

Holding revenue constant, the new per-pupil amount is

$$\frac{\$50,000,000}{6,375 \text{ students}} = \$7,843 \text{ per student}$$

James K. Polk Charter School's **50 students** generate \$392,157 for the school year, or \$7,843 less than originally calculated. Volunteer County ultimately transfers less funding to charter schools due to a smaller per-pupil amount.

Suppose, however, that Volunteer County *loses* students over the year, so that its final, current year **district ADM** is **6,150 students**. The updated per-pupil amount becomes

$$\frac{\$50,000,000}{6,150 \text{ students}} = \$8,130 \text{ per student}$$

Due to declining enrollment, Volunteer County transfers a higher per-pupil amount to charter schools. James K. Polk Charter School and its **50 students** receive \$406,504 for the school year, or \$6,504 more than originally calculated.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Issue 2: Clarity in the distribution of growth funds

Another factor affecting the numerator of the per-pupil equation, **state and local revenue**, is growth funding. A district's BEP funding is based on enrollment in the previous year; therefore, districts that are gaining students do not receive BEP funding for new students in their first year of enrollment.

For example, if a district had 50,000 students in school year 2014-15, the district's state BEP funds for the next school year, 2015-16, will be based on those 50,000 students. If, however, the district gains 1,250 students during the 2015-16 school year, the district's BEP funds will not "cover" the new students – the BEP allocation is based on the 50,000 students in the prior year, not the 51,250 students in the current year.^F

To account for additional students, state law provides for "growth payments" to districts that grow significantly. When a district's current year ADM exceeds the previous year's by more than 2 percent, the state adjusts for increased enrollment through growth payments to districts in February and June.^G State Board of Education rule states:

All ten (10) payments distributed by the State Department of Education are based on prior year weighted average daily membership (ADM) figure. However, twice a year, once in February and once in June, funds are adjusted based on actual enrollment in the current year. If payments to an LEA from the Department of Education are increased or reduced based on actual enrollment, and a charter school's actual enrollment is higher or lower than its prior year enrollment, or than its anticipated enrollment in the charter agreement, **the payments to the charter schools shall be adjusted by determining pro-rata shares** of adjusted distributions based on the current year's ADM for the LEA [emphasis added].¹⁷

See [Appendix C](#) for a summary of state laws and State Board of Education rules pertaining to charter school funding.

^F Similarly, a district that *loses* students will receive funding for students no longer enrolled. The district's school year 2015-16 BEP funding is based on the 50,000 students enrolled in 2014-15. If the district loses students during the 2015-16 school year, so that it has only 48,750 students in the current school year, its BEP funding is not adjusted downward. The district will be funded for 50,000 students – 1,250 more than it actually has – for the entire school year.

^G While districts with the highest growth rates must receive growth funding first, any remaining funds may be distributed to districts with lower growth. In 2016, the General Assembly appropriated an additional \$9 million for growth funds, increasing the total amount of growth money to \$19 million. This will fully fund growth payments for districts with 1 percent or more increases in enrollment.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Finding: Possible incorrect distribution of growth funds

Because growth funds are separate from the BEP, and dependent on appropriations from the General Assembly, their distribution to schools hinges on their use in the charter funding formula: *Do the SBOE rules intend that growth funds be included in the numerator of the charter funding equation as **state and local revenue**, or do the rules intend that growth funds should be distributed separately from the per-pupil amount given to charter schools?*

SBOE rule is unclear as to how districts should distribute growth funds to charter schools. The rule states that “payments to charter schools shall be adjusted by determining pro-rata shares of adjusted distributions.” The language of the rule suggests that funding follows the student. In other words, if traditional schools in the district enroll new students, but charter schools do not, the growth funds received by the district are not required to be distributed to charter schools. If, however, both traditional and charter schools experience similar increases in enrollment, growth funds are to be distributed proportionately to both traditional and charter schools.

In current practice, districts receiving growth funds add the entire payment from TDOE into their **state and local revenue** and divide by the **district ADM** to obtain a new per-pupil amount. The February growth payment is divided by the prior year district ADM; the final June growth payment is divided by the updated current year district ADM. This per-pupil amount is then distributed to charter schools based on each **charter school’s ADM**.

By updating the per-pupil amount, growth money is distributed evenly between traditional and charter schools. Charter schools that are not growing nevertheless receive growth funds, and charter schools that are growing significantly may not receive enough growth money to account for their additional students. If the SBOE rule intends that growth money is distributed proportionately based on each school’s growth, districts are not distributing growth funding in this manner.

Issue 3: Transparency of funds to be included or excluded from the per-pupil calculation for charter schools

While some confusion stems from the denominator of the per-pupil calculation, **district ADM**, there is also ambiguity regarding what revenues are included in the numerator, **state and local revenue**.^H State law requires that the per-pupil charter school allocations “shall be

^H By law, school districts must transfer state and local education funds to charter schools on a per-pupil basis. This per-pupil figure is calculated using the formula described earlier, and includes state BEP funds, the required local match for the BEP, and any local operating funds above and beyond the local match. By law, charter schools are entitled to all appropriate federal funding, including Elementary and Secondary Education Act (ESEA) and Individuals with Disabilities Education Act (IDEA) funds. Federal funds are typically allocated by formula, often based on student demographics, rather than on a per-pupil basis. As such, federal funds are not included in the calculation of a charter school’s per-pupil amount.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

based on one hundred percent (100%) of state and local funds received by the LEA, including current funds allocated for capital outlay purposes, excluding the proceeds of debt obligations and associated debt service.”^{18, 19} In practice, however, per direction from TDOE, some revenue funds are excluded from the per-pupil calculation of operating funds that are to be transferred to charter schools. The resulting lack of transparency in the funding process creates a perception of inequity.

As of summer 2016, TDOE does not publish a list of revenue codes that are excluded from the per-pupil calculation for charter schools or a written policy addressing the reasons for the exclusion. State law directs that charter school allocations shall be “an amount equal to the per student state and local funds received by the LEA and all appropriate allocations under federal law or regulation . . . The allocations shall be in accordance with rules and regulations promulgated by the department of education.”²⁰ State law requires TDOE to promulgate rules and regulations that provide for the determination of the allocation of state and local funds.²¹ The State Board of Education, and not the Department of Education, promulgates rules and regulations, and SBOE rules do not address the exclusion of any local funds from the funding formula, but state that “allocations shall be based on one hundred percent (100%) of state and local funds received by the LEA.”²²

Table 1 outlines a list of funds that are included in the calculation based on the “Charter and ASD Funding Guide” spreadsheet published by TDOE each year. The excluded funds are compiled from OREA interviews with district finance officials and may not be comprehensive or apply to each district.

TDOE refers to the funds included for calculating the per-pupil allocation for charter schools as “maintenance of effort” (MOE) revenues, meaning these are the revenues that the Department uses to perform the MOE test each year to ensure districts are budgeting at least the same amount of funds from one fiscal year to the next.¹ This description of the per pupil calculation of funds for charter schools as equivalent to MOE revenue is misleading. The revenue codes used to perform the MOE test include revenues that are excluded from the calculation for charter school funding, such as revenue generated through leases/rentals and federal Impact Aid Program funds.^J See [Appendix D](#) for a list of maintenance of effort revenue codes.

¹ Maintenance of effort requirements ensure that local funding bodies, such as county commissions, “maintain” their budgeted levels of local funding for school districts from one year to the next. That is, the local share of education funding cannot decrease as state funding increases – otherwise, school districts would be “replacing,” or supplanting, local funds with state funds, rather than using both sources of revenue to enhance each other. Maintenance of effort revenues, then, are the local revenues TDOE checks each year when making sure local funding has not decreased. For more information on Maintenance of Effort laws for education funding, see OREA’s 2015 report, [Understanding Tennessee’s Maintenance of Effort in Education Laws](#).

^J Public Law 874 funding provides financial assistance to local public school districts serving children of parents who either lived or worked on tax-exempt federal property. Not all districts in Tennessee receive this funding every year.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Table 1: Revenue codes included and excluded from the per pupil funding calculation for charter schools

| Local Revenue | | | |
|---|---------------------------------|------------------------|---|
| Included revenue codes | Description | Excluded revenue codes | Description |
| 40110 to 40163 | County Property Taxes | 43511 | Tuition – regular day students (virtual school) |
| 40210 | Local Option Sales Tax | 43515 | Tuition – other state systems |
| 40220 to 40290 | Other County Local Option Taxes | 43517 | Tuition – other |
| 40320 to 40390 | Statutory Local Taxes | 44120 | Lease/rentals |
| 40610 to 40650 | City/SSD Property Taxes | 44530 | Sale of equipment |
| 41110 to 41590 | Licenses and Permits | 44560 | Damages recovered from individuals |
| 44110 | Investment Income | 44170 | Miscellaneous refunds (p-card) |
| 49810 | City General Fund Transfer | 44570 | Contributions/gifts |
| 72310-510* | Trustee Commission | 49900 | Indirect Transfers |
| 72310599** | Property Tax Refund (MDHA) | | |
| State Revenue | | | |
| Included revenue codes | Description | Excluded revenue codes | Description |
| 46511 | BEP | 46610 | Career Ladder programs |
| 46810 to 46851 | Other State Revenues | 46612 | Career Ladder – extended contract |
| Federal Revenue | | | |
| Included revenue codes | Description | Excluded revenue codes | Description |
| Federal funds are typically allocated by formula, often based on student demographics, rather than on a per-pupil basis. As such, federal funds are not included in the calculation of a charter school's per-pupil amount. | | 47143*** | Special Education – grants to states |
| | | 47630**** | Public Law 874 – Impact Aid Program |

Source: Office of Local Finance, Tennessee Department of Education, Charter and ASD Funding Guide, fiscal year 2014-15.

* Not all school districts pay a Trustee Commission. For those districts that do pay, the amount is removed from the total local revenue before calculating the per pupil allocation for charter schools.

** Applies only to MNPS and is removed from the total local revenue before calculating the per pupil allocation for charter schools.

*** Revenue code 47143 is also known as Individuals with Disabilities Education Act (IDEA) funding. Districts do pass through all eligible funding for IDEA to charter school students but retain some amount of funding at the district for indirect costs.

**** Impact Aid provides additional funds to school districts impacted by the federal acquisition of land. School districts may include land owned by the federal government that is tax exempt – for example, military bases, Indian reservations, or low-income housing. Title VII money helps districts replace local revenue that cannot be collected through property taxes, so that districts have adequate funding to provide a high-quality education.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Finding: Lack of transparency at the state level regarding local funds

The resulting lack of transparency in the funding process may create a perception of inequity. With no explicit statutory or regulatory guidance, there is a lack of clarity regarding why some local revenues are included and not others. Furthermore, TDOE does not currently have any departmental policies aside from the “Charter and ASD Funding Guide” to inform districts and charter schools on this practice.

Issue 4: State verification of charter funding

To date, no verification process exists at the state level regarding how much funding districts transfer to charter schools each year, and if the amount transferred is the appropriate amount of local, state, and federal funding. Absent this verification process, OREA cannot definitively answer whether the state’s charter schools have received the correct amount of funding from their authorizing districts. In addition, questions or concerns about funding may not be resolved quickly or fairly, and may reduce public trust that state policy is being implemented as intended.

TDOE annually publishes the “Charter and ASD Funding Overview” document to its website. Historically, this spreadsheet detailed the *estimated* **state and local revenue** and prior year **district ADM** by school district, which are to be used in the per-pupil calculation for charter schools at the beginning of the school year; it did not serve to confirm final per-pupil allocations by the end of the fiscal year. In 2014-15, TDOE released a final version of that fiscal year’s funding overview document to include the total amount of local and state funding due to charter schools. It is unclear if this final spreadsheet reflects how much districts *did* transfer to charter schools or if it confirms how much districts *should have* transferred to charter schools. Although there are no confirmed final funding amounts for charter schools for years prior to 2014-15, TDOE indicated to OREA that it intends to continue this practice moving forward.

Accountability of local funds for charter schools

As of June 2016, TDOE does not have a process in place to verify any changes a district makes throughout the year to its per-pupil funding amount to charter schools, specifically when local revenues increase or decrease from the budgeted amounts that are communicated to charter schools at the beginning of each school year. Each authorizing district is required by state law to include the per-pupil amount of local money it will pass through to charter schools in its annual budget, which is submitted to TDOE for review and approval. Allocations to charter schools are required by state law to be based on that budgeted figure.²³ State law also requires TDOE to approve certain adjustments in districts’ allocations to charter schools: if a district’s local revenue increases or decreases from the budgeted figure, thereby affecting the per-pupil amount, the district must seek approval from the Commissioner of Education to change the local revenue amount used in the numerator of the per-pupil calculation.²⁴ TDOE could not

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

confirm with OREA how many times districts have adjusted their payments to charter schools based on changes in local revenue and whether or not the Commissioner's approval had been granted.

TDOE does have a process in place to monitor districts' local revenues for compliance with maintenance of effort laws. However, this process is not sufficient to confirm charter school allocations. At the beginning of each fiscal year, TDOE confirms whether districts have budgeted at least as much local revenue for day-to-day operations in the current school year as they did in the previous year ("maintenance of effort").²⁵ Because these revenue figures are budgeted, and do not reflect the actual amount collected by the end of the year, maintenance of effort tests are not sufficient to verify charter school funding.

Additionally, districts must report their local revenue amounts for each fiscal year in an Annual Financial Report due to TDOE by August 1.²⁶ Because local revenues may continue to be collected and accrued after this date, there is no state confirmation or public documentation of total local revenue that districts include in the final true-up payment to charter schools.

TDOE does verify final local revenues for charters authorized by the Achievement School District (ASD). TDOE indicated to OREA that it collects final accruals and receipts from local districts in the Maintenance of Effort tests to confirm the total amount of local funding that is to be transferred to the ASD; however, it appears that TDOE does not expand this verification to charter schools authorized by other districts.²⁷

Accountability of state funds for charter schools

TDOE is responsible for calculating and distributing the state's portion of BEP funding to each district. TDOE withholds the state's portion of the BEP capital outlay component from this payment and distributes it directly to each charter school or charter operators of multiple schools.²⁸ The same questions of clarity and transparency for how and when to apply the district ADM to the formula calculation apply to TDOE's calculation of the capital outlay component. TDOE combines some charter school capital outlay payments for multiple schools under the same operators. Thus, OREA cannot determine how TDOE calculates and verifies the capital outlay component payments to individual charter schools.

Accountability of federal funds for charter schools

The Office of Consolidated Planning and Monitoring within TDOE is responsible for ensuring that districts distribute and spend federal dollars in accordance with federal laws and guidelines. Districts submit applications, which include charter schools, for federal title dollars to TDOE annually. Each district also submits an annual budget that reflects any modifications made to the original application due to changes in actual allocations received from the federal

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

government. All figures related to charter schools are reviewed by TDOE to ensure that the district has planned to allocate funds to all schools appropriately.^K

Finding: Lack of state system to verify final allocations to charter schools

OREA attempted to use several sources – school-level audits, district-reported data, and state figures – to confirm that the amount charter schools received matched the amounts that the state and districts reported to have transferred. Due to timing and other discrepancies among these three types of sources, however, OREA cannot reconcile or verify the funding charter schools received.

For example, the revenue figures in school-level audits and district-reported data for one district were often close, but rarely, if ever, matched exactly. Some schools reported receiving more revenue than the district disbursed, and some reported less. Other schools reported that their school-level revenue numbers were higher than the district’s one year, and lower the next.

This discrepancy may be due to several factors. First, charter school audits list “district revenue” as a category. While TDOE and the district consider only BEP and growth funds as “district revenue,” it is possible that the school-level audits may include other money in addition to BEP and growth funds.

Additionally, the discrepancy in the figures may be due to timing: final revenue numbers may not be available at the time the audit is conducted. Districts send the tenth payment to charter schools in June, and districts must submit their Annual Financial Reports (AFR) to TDOE by August 1 each year. Final local revenue reconciliations may not be complete until later in the summer, however, and districts may send one additional “true up” payment to charter schools as late as September or October of the following school year. These final reconciliations and any additional payments to charter schools may not be reflected in the districts’ AFR and charter school audits as a result.

^K For more information on the types of federal funds that charter schools receive and how those funds are calculated and distributed, see OREA’s 2014 report, *Charter Schools: Funding Tennessee’s Authorizers and Schools*.

$$\text{charter school funding} = \frac{\text{state and local revenue}}{\text{overall district ADM}} \times \text{charter school ADM}$$

Moving Forward

Public Chapter 1020 (2016) requires the Department of Education to develop a standardized system of school-level financial accounting and reporting; using this system, school districts will report revenue allocations for individual schools, including charter schools.²⁹ As of August 2016, TDOE plans to create a working group of district and charter representatives to provide input on the new standardized system and will explore legislative and State Board rule changes to address concerns. SBOE plans to pass clarifying rule changes in July 2017 to address any legislative changes made during the 2017 session of the Tennessee General Assembly. Additionally, both the Department and districts should ensure that the method for calculating all charter funds is publicly available, allowing charter schools or other parties to independently verify funding.

Improved clarity, transparency, and verification regarding the calculation, disbursement, and receipt of charter school funding would provide policymakers, stakeholders, and the public with more confidence that charter schools are receiving the correct amount of funding from their authorizing districts.

Endnotes

- ¹ Maryanne Durski, Executive Director of Local Finance, “Charter school funding adjustments,” Memo, addressed to Directors of schools – Hamilton County Schools, Knox County Schools, Metropolitan Nashville Public Schools, Shelby County Schools, Achievement School District, June 13, 2016.
- ² Maryanne Durski, Executive Director of Local Finance, “Charter school funding adjustments,” Memo, addressed to Directors of schools – Hamilton County Schools, Knox County Schools, Metropolitan Nashville Public Schools, Shelby County Schools, Achievement School District, July 19, 2016.
- ³ Tennessee Department of Education, *Tennessee Basic Education Program 2.0: Handbook for Computation*, March 2016, pp. 71-72, <https://www.tn.gov/> (accessed Aug. 3, 2016).
- ⁴ Rules of the State Board of Education, Chapter 0520-14-01.03(2), Rules for Charter Schools, Allocation of State and Local Funds, revised April 2015.
- ⁵ *Tennessee Code Annotated* 49-13-112(b)(1).
- ⁶ *Tennessee Code Annotated* 49-13-112(a).
- ⁷ *Tennessee Code Annotated* 49-13-112(a) and (b)(1).
- ⁸ *Tennessee Code Annotated* 49-13-112(a).
- ⁹ *Tennessee Code Annotated* 49-3-351(d).
- ¹⁰ Tennessee Department of Education, *Tennessee Basic Education Program 2.0: Handbook for Computation*, March 2016, p. 71, <https://www.tn.gov/> (accessed Aug. 3, 2016).
- ¹¹ *Tennessee Code Annotated* 49-3-351(d); Tennessee Department of Education, *Tennessee Basic Education Program 2.0: Handbook for Computation*, March 2016, pp. 71-72, <https://www.tn.gov/> (accessed Aug. 3, 2016).
- ¹² *Tennessee Code Annotated* 49-3-316(a)(2).
- ¹³ *Tennessee Code Annotated* 49-13-112(b)(1).
- ¹⁴ *Tennessee Code Annotated* 49-13-112(a).
- ¹⁵ Offices of Research and Education Accountability, *Defining Tennessee Education: A Glossary of Education Terms*, “Average Daily Membership,” <http://comptroller.tn.gov/>.
- ¹⁶ Maryanne Durski, Executive Director of Local Finance, “Charter school funding adjustments,” Memo, addressed to Directors of schools – Hamilton County Schools, Knox County Schools, Metropolitan Nashville Public Schools, Shelby County Schools, Achievement School District, June 13, 2016.
- ¹⁷ Rules of the Tennessee State Board of Education, Chapter 0520-14-01-.03(2), Allocation of State and Local Funds, effective Aug. 29, 2012.
- ¹⁸ *Tennessee Code Annotated* 49-13-112(b)(1).
- ¹⁹ Rules of the Tennessee State Board of Education, Chapter 0520-14-01-.03(1)(a), Allocation of State and Local Funds, effective Aug. 29, 2012.
- ²⁰ *Tennessee Code Annotated* 49-13-112(a).
- ²¹ *Tennessee Code Annotated* 49-13-112(b).
- ²² Rules of the Tennessee State Board of Education, Chapter 0520-14-01-.03(1)(a), Allocation of State and Local Funds, effective Aug. 29, 2012.
- ²³ *Tennessee Code Annotated* 49-13-112(a).
- ²⁴ *Tennessee Code Annotated* 49-13-112(a).
- ²⁵ *Tennessee Code Annotated* 49-3-314(c)(2).
- ²⁶ *Tennessee Code Annotated* 49-3-316(3).
- ²⁷ Tennessee Department of Education, *Tennessee Basic Education Program 2.0: Handbook for Computation*, March 2016, p. 82, <https://www.tn.gov/> (accessed Aug. 3, 2016).
- ²⁸ *Tennessee Code Annotated* 49-13-112(c)(1).
- ²⁹ 109th Tennessee General Assembly, *Public Acts, 2016, Chapter No. 1020*, Section 4, <http://share.tn.gov/> (accessed Jul. 7, 2016).

Appendix A: Methodology

OREA consulted the following sources for this project:

- Review of relevant state statutes and State Board of Education rules related to charter schools;
- Interviews with state officials in the Tennessee Department of Education, Achievement School District, and State Board of Education; and school district officials in Hamilton County Department of Education, Knox County Schools, Metro Nashville Public Schools, and Shelby County Schools; and
- Review of financial reports and audits from the Tennessee Department of Education, school districts, and individual charter schools.

OREA requested the following information from each school district for each school year from 2011-12 to 2015-16:

- District ADM for total district BEP funding used to determine per-pupil allocations for charter schools;
- Total local revenue (including above and beyond required local match) used to calculate funding for charter schools;
- Final total per-pupil allocation to charter schools (with and without transportation, if applicable);
- Total annual allocations to charter schools; and
- Total weighted ADM for each charter school.

Appendix B: June 13, 2016 TDOE memo and July 19, 2016 memo



BILL HASLAM
GOVERNOR

STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
NINTH FLOOR, ANDREW JOHNSON TOWER
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243-0375

CANDICE MCQUEEN
COMMISSIONER

MEMORANDUM

To: Directors of schools – Hamilton County Schools, Knox County Schools, Metropolitan Nashville Public Schools, Shelby County Schools, Achievement School District

From: Maryanne Durski, Executive Director of Local Finance

Date: June 13, 2016

Re: Charter school funding adjustments

We have recently reviewed the state board rules for calculating the per pupil funding amount that is to be allocated to charter schools in your district. As a result of this review, we would like to clarify the methodology by which the per pupil amount is determined.

At the beginning of the year, the per pupil amount is based upon the LEA's BEP allocation and estimated local revenues for the current year. This total is divided by the BEP-funded ADMs to obtain the per pupil amount. This per pupil amount is then multiplied by the charter school's ADMs to determine the funding for each charter school. Payments are adjusted to the charter school's actual enrollment twice during the year, in October and June.

When final BEP and local revenues are determined following the close of the fiscal year, a final true-up should be done to ensure that all of the state and local revenues received by the LEA are included in the charter school per pupil amount. The total LEA ADMs on which the per pupil amount is based will be either the ADMs on which the BEP funding was based (prior year) or the current year ADMs **if** the LEA received growth funds during the year. This is in accordance with TCA § 49-13-112 and state board rule 0520-14-01-.03. LEAs may wish to wait until the fall when all revenue and ADM information is verified to make the final payment to charter schools in order to avoid over or under-paying the charter schools.

In accordance with both state law and state board rules, the commissioner of education will approve any adjustments to a charter school's per pupil amount. Please forward final payment calculations for your charter schools to the Office of Local Finance for review and approval by the commissioner.

Questions regarding charter school funding may be addressed to Maryanne Durski at 615-532-9510 or Maryanne.durski@tn.gov.



BILL HASLAM
GOVERNOR

STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
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CANDICE MCQUEEN
COMMISSIONER

MEMORANDUM

To: Directors of schools – Hamilton County Schools, Knox County Schools, Metropolitan Nashville Public Schools, Shelby County Schools, Achievement School District

From: Maryanne Durski, Executive Director of Local Finance

Date: July 19, 2016

Re: Charter school funding adjustments

On June 13, 2016, the Tennessee Department of Education issued a memo asking for the methodology by which your districts calculate the per pupil amount for charter schools. This memo was issued in an effort to verify that charter school funding in Tennessee is aligned with statutory requirements as well as state board of education rules; however, the memo prompted many questions around the clarity of the state's funding requirements for charter schools, and, in particular, the student enrollment number to be utilized in the calculation.

After receiving additional communications on this matter, including the June 28 memo issued by the Comptroller's office (see attached), and after conducting additional analyses of the relevant statutes, rules, and regulations, the department has concluded there is insufficient clarity, transparency, and verification associated with the calculation and receipt of charter school funding in the state. State law, state board rules, and department policies do not adequately provide clear and complete guidance on the formula components and do not offer a definitive methodology to be used in calculating charter school funding.

Given this lack of clarity, the department is directing LEAs to continue to operate and fund charter schools in the district according to the policies and procedures implemented in their budget planning process for the 2015-16 school year and utilized to date for the 2015-16 school year.

Moving forward, the department and the state board will work to improve and clarify the current charter school funding requirements to ensure districts are funding charter schools in a manner that is clear, consistent and transparent.

We thank you for your time and attention to this matter and apologize for any confusion this has created for your district and/or your charter schools.

Any additional questions regarding charter school funding may be addressed to me at 615-532-9510 or Maryanne.Durski@tn.gov or Marcy Tidwell, Director of School Choice, at 615-532-6274 or Marcy.Tidwell@tn.gov.

Appendix C: State Board of Education rules pertaining to charter school funding

0520-14-01-.03 ALLOCATION OF STATE AND LOCAL FUNDS.

- (1) State and local funds to charter schools shall be allocated pursuant to T.C.A. § 49-13-112. State and local fund allocations are determined for each LEA on the basis of prior year average daily membership (ADM).
 - (a) Allocations shall be based on one hundred percent (100%) of state and local funds received by the LEA, including current funds allocated for capital outlay purposes (excluding the proceeds of debt obligations and associated debt service).
 - (b) Student enrollments used in allocations shall be for the same period used in allocating state funds to the LEA under the basic education program.
 - (c) Allocations to the charter school may not be reduced by the LEA for administrative, indirect or any other category of cost or charge except as specifically provided in a charter agreement. Any educational or operational services the authorizer provides for a fee may also exist in a separate contractual agreement between the charter school and the authorizer. However, approval of a separate services contract may not be a condition of approval of the charter agreement.
 - (d) If students attended a non-chartered public school in the prior year, and attend a public charter school in the same LEA in the current year, those students are being funded through the BEP formula, and funds for those students must be passed through to the public charter school in an amount equal to the per student state and local funds received by the LEA.
 - (e) If students are new to the LEA and enroll first in a public charter school, their enrollment would not be reflected in the BEP formula used to determine the initial distributions to the LEA. But their enrollment would be reflected in the growth funds distributed in February and June. Thus, as the LEA receives increased funding in subsequent distributions to reflect the increased ADM, the LEA must allocate the funds for those students to the public charter schools they attend. LEAs can determine the amount to allocate by determining pro-rata shares of growth money based on the current district-wide ADM, and then divide the growth money by that figure to determine the amount to allocate to the public charter schools for each student.

- (f) If an LEA does not generate increased funding due to growth, the public charter school would receive no additional funding in the current year for the students new to the LEA.
 - (g) New charter schools or charter schools adding a new grade are funded based on anticipated enrollment in the charter agreement. Those figures are then subsequently adjusted to reflect the actual number of students enrolled. Initial payments will be based on enrollment projections for the next school year as of March 1.
- (2) All ten (10) payments distributed by the State Department of Education are based on prior year weighted average daily membership (ADM) figure. However, twice a year, once in February and once in June, funds are adjusted based on actual enrollment in the current year. If payments to an LEA from the Department of Education are increased or reduced based on actual enrollment, and a charter school's actual enrollment is higher or lower than its prior year enrollment, or than its anticipated enrollment in the charter agreement, the payments to the charter schools shall be adjusted by determining pro-rata shares of adjusted distributions based on the current year's ADM for the LEA.
 - (3) Local funds. Each LEA shall include as part of its budget submitted pursuant to T.C.A. § 49- 2-203, the per pupil amount of local money it will pass through to charter schools during the upcoming school year. Allocations to the charter schools during that year shall be based on that figure. The LEA shall distribute the portion of local funds it expects to receive in no fewer than nine (9) equal installments to the charter schools in the same manner as state funds are distributed. If the amount of local funds received increases or decreases from the budgeted figure, the LEA may adjust payments to the charter schools in February or June. Before adjusting payments to the charter schools, the LEA shall receive approval from the commissioner. The per pupil amount of local money budgeted for charter schools is not budgeted in a separate line item in the budget; but rather is part of the entire amount of budgeted local revenue.
 - (4) Pursuant to T.C.A. § 49-13-124, the chartering authority may endorse the submission of the qualified zone academy bond application to the local taxing authority. The chartering authority may endorse such a bond application submitted by the charter school governing body, or the chartering authority may include the charter school's project as part of the chartering authority's bond application.
 - (5) School Nutrition Programs. If charter schools provide school nutrition programs, they may provide their own programs in compliance with United States Department of Agriculture regulations and State law or they may contract with the LEA for the provision of school nutrition programs.

- (6) **Transportation.** Charter schools that provide transportation in accordance with the provisions of T.C.A. § 49-6-2100 *et seq.*, other than through an agreement with the LEA, shall receive the State and local funds generated through the BEP for such transportation.

Authority: T.C.A. §§ 49-13-112 and 49-13-126. **Administrative History:** Original rule filed March 25, 2010; effective August 29, 2010. Repeal and new rule filed March 21, 2012; effective August 29, 2012.

Appendix D: Revenue codes used for charter schools

| Account Code | Account Description |
|---------------------|--|
| 40110 | Current Property Tax |
| 40115 | Discount on Property Taxes |
| 40120 | Trustee's Collections - Prior Year |
| 40130 | Circuit Clerk/Clerk & Master Collections - Prior Years |
| 40140 | Interest and Penalty |
| 40150 | Pickup Taxes |
| 40161 | Payments in Lieu of Taxes - T.V.A. |
| 40162 | Payments in Lieu of Taxes - Local Utilities |
| 40163 | Payments in Lieu of Taxes - Other |
| 40210 | Local Option Sales Tax |
| 40220 | Hotel/Motel Tax |
| 40230 | Local Amusement Tax |
| 40240 | Wheel Tax |
| 40270 | Business Tax |
| 40275 | Mixed Drink Tax |
| 40280 | Mineral Severance Tax |
| 40290 | Other County Local Option Taxes |
| 40320 | Bank Excise Tax |
| 40330 | Wholesale Beer Tax |
| 40340 | Coal Severance Tax |
| 40350 | Interstate Telecommunications Tax |
| 40390 | Other Statutory Local Taxes |
| 40610 | Current Property Tax |
| 40620 | Prior Year's Property Tax |
| 40630 | Interest and Penalty |
| 40640 | Pickup Taxes |
| 40650 | Payments in Lieu of Taxes |
| 40710 | Local Option Sales Tax |
| 40720 | Hotel/Motel Tax |
| 40730 | Local Amusement Tax |
| 40740 | Business Tax |
| 41110 | Marriage Licenses |
| 41140 | Cable TV Franchise |
| 41150 | Mobile Home Licenses |
| 41590 | Other Permits |
| 44110 | Investment Income |
| 46830 | Beer Tax |
| 46850 | Mixed Drink Tax |
| 46851 | State Revenue Sharing - T.V.A. |
| 49810 | City General Fund Transfers |



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