

# FY 2017 Annual Report: Analysis of Funding for Mississippi Charter Schools and the Charter School Authorizer Board

## Executive Summary

### Introduction

In 2013 the Mississippi Legislature enacted the “Mississippi Charter Schools Act of 2013,” providing authorization for a charter school oversight board and guidance for the formation of charter schools in Mississippi.

MISS. CODE ANN. § 37-28-37(2) (1972) requires PEER (the Joint Legislative Committee on Performance Evaluation and Expenditure Review) to prepare an annual report that

1. assesses the sufficiency of funding for charter schools;
2. assesses the efficacy of the state formula for authorizer funding; and
3. suggests changes to state law or policy that might strengthen charter schools.

This annual report, the second conducted by PEER, addresses only the first two mandates in state law. Because the Legislature made significant changes to the “Mississippi Charter Schools Act” in 2016, PEER believes that such changes need to be monitored over time before assessing any effects that result or therefore suggesting additional changes per the third mandate.

The scope of this review includes the three charter schools operating during the 2016–2017 school year: Midtown Public Charter School, Reimagine Prep, and Joel E. Smilow Prep.

### Background

Charter schools are publicly funded, independently managed, semi-autonomous schools of choice that operate with freedom from many of the local and state regulations that apply to traditional public schools. The “Mississippi Charter Schools Act of 2013” establishes all charter schools as public schools and as part of the state’s public school system, with an emphasis on expanding opportunities for “underserved students.”<sup>1</sup> The underserved student composition of a charter

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<sup>1</sup>MISS. CODE ANN. Section 37-28-5(o) defines “underserved students” as students participating in the federal free lunch program who qualify for at-risk student funding under the Mississippi Adequate Education Program (MAEP) and students who are identified as having special educational needs.

school's enrollment must reflect that of students attending the school district in which the charter school is located, and is defined as being at least 80 percent of that population.

The Mississippi Charter School Authorizer Board (MCSAB) is the sole authorizing body for charter schools in the state and is responsible for oversight of the schools' operations. The MCSAB responsibilities include developing chartering policies, reviewing charter school applications, deciding whether to approve or reject applications (including renewal applications), entering into charter contracts with applicants, overseeing charter schools, and, when necessary, revoking a charter school's contract.

During the 2016 Regular Session the Legislature amended the "Mississippi Charter Schools Act of 2013" to include the following:

- To allow students in districts rated "C," "D," or "F" to cross district lines to attend charter schools;
- To require charter schools to meet or exceed graduation requirements set by the State Board of Education for a regular high school diploma; and
- To require that MAEP payments to charter schools be reconciled each year using average daily attendance (ADA) for months two and three, with the reconciliation being applied to the following year's MAEP payments.

Per state law, the Mississippi Charter School Authorizer Board may approve a maximum of 15 qualified charter applications during a fiscal year. Through the 2017 application cycle, the board had evaluated 28 applications, denying 24 while approving four, including one new charter school to be located in the Clarksdale Municipal School District.

In September 2017, the U.S. Department of Education awarded a five-year, \$15 million grant to the Mississippi Charter School Authorizer Board to help expand the state's charter school sector. The board aims to increase the number of charter schools from four to 19 over the next five years<sup>2</sup> and to create at least 15,000 additional seats.

In 2016 the Legislature made changes to the "Mississippi Charter Schools Act" by allowing students in "C," "D," or "F" districts to cross district lines to attend charter schools. Thus, the 2016-2017 school year was the first year that charter schools enrolled students residing in districts other than the Jackson Public School District. In addition to the JPSD, three charter schools served students from the Hinds County School District, the Leake County School District, and the Yazoo City School District.

The MCSAB developed a performance framework to provide criteria (i.e., performance measures) for assessing charter schools. For each performance measure, a school receives one

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<sup>2</sup>October 1, 2017-September 30, 2022.

of four ratings: “Exceeds Expectations,” “Meets Expectations,” “Approaches Expectations,” or “Fails to Meet Expectations.” The framework includes the academic measures for student academic proficiency, academic growth, and performance of major student subgroups, etc.; financial measures; and organizational measures, including enrollment, discipline, and at-risk student populations.

Schools that “Exceed Expectations” earn an “A,” “Meet Expectations” earn a “B” or “C,” “Approach Expectations” earn a “D,” and “Fail to Meet Expectations” earn an “F.”

For the 2015–2016 school year, Midtown Public Charter School received a rating of “F” and Reimagine Prep received a rating of “D.” Although the MCSAB has not yet released its 2017 annual report, the MDE released its most recent accountability ratings in October 2017 for the 2016–2017 school year. Midtown Public received a rating of “F,” and Reimagine Prep and Smilow Prep both received ratings of “D.”

## **Sufficiency of Funding for Charter Schools**

Charter schools receive funding from state sources, local ad valorem taxes, federal funds, and through fund-raising and other sources, such as grants and gifts. During the 2016–2017 school year Midtown Public received approximately \$1.6 million, Reimagine Prep approximately \$2.75 million, and Smilow Prep approximately \$2 million from Mississippi Adequate Education Program (MAEP) funding, local ad valorem taxes, federal funds, and other sources.

### **Sufficiency of MAEP Funding**

The Mississippi Legislature defines what constitutes adequate funding to public schools through a formula known as the Mississippi Adequate Education Program funding. For purposes of this review to assess the sufficiency of funding for charter schools as required by statute, PEER equates the Legislature’s definition of adequate funding through the MAEP formula to constitute sufficient funding from the state for charter schools.

Under MAEP, the Legislature provides funding to school districts and charter schools to cover instruction, administration, plant and maintenance, and ancillary (e.g., librarians and counselors) expenditures. Also under MAEP, the Legislature provides funding to each school district and charter school for add-ons, which are special education, gifted, alternative school, and transportation programs. During the 2016–2017 school year the MDE distributed MAEP funding to charter schools in the amount of \$4,073 per pupil (before add-on program costs), which was the same amount provided to the JPSD in accordance with MISS. CODE ANN. Section 37-28-55(1)(a).

### **Sufficiency of Funding from Local Ad Valorem Taxes**

For purposes of this review, PEER equates the sufficiency of local funding levels for Midtown Public, Reimagine Prep, and Smilow Prep to the funding levels provided to other school districts in which charter school students reside.

For the 2016–2017 school year, Midtown Public, Reimagine Prep, and Smilow Prep received local support payments from ad valorem taxes in a manner consistent with MISS. CODE ANN. Section 37-28-55(2) and (3). However, the local ad valorem pro rata calculation required by that statute provides unequal shares between charter schools and the school districts. Further, the statute does not require that local ad valorem support to charter schools be reconciled annually, as it does for MAEP payments.

Because the 2016–2017 school year was the first in which charter schools enrolled students from districts other than the Jackson Public School District, for the three charter schools operating during that school year, per-pupil local support payments were based on the previous fiscal year's ad valorem tax receipts received by the student's district of residence.

### **Pro Rata Share of Local Ad Valorem Taxes to Charter Schools**

The pro rata amount to the charter school is calculated by dividing the total amount of ad valorem receipts and in-lieu receipts of the school district in which the student resides by its months one through nine average daily membership (ADM). The school district in which the student resides will then pay an amount equal to this pro rata amount multiplied by the number of students residing in its district who are enrolled in the charter school, based on the charter school's end of first month enrollment for the current school year.

Calculating the pro rata share of local ad valorem taxes to charter schools in this manner results in the charter schools receiving more funds per pupil than the school district in which the student resides.

### **Local Ad Valorem Contributions Not Reconciled**

Although state statute requires the annual reconciliation of MAEP payments to charter schools, it does not require reconciliation of local ad valorem contributions paid to charter schools by school districts. Therefore, the per-pupil local ad valorem contributions paid to charter schools each year are not consistent with the actual number of students in attendance at the charter schools for that year.

### **Sufficiency of Federal Funding**

The Mississippi Department of Education receives federal grant funds and distributes them to each qualified school

based on the standards set forth in each grant's program and agreement and a school's ability to meet these specifications. The MDE must comply with the distribution requirements specified by each federal program or grant.

Within this framework for the distribution of federal funds, charter schools have equal access to apply for and receive federal funds. Regarding sufficiency, the amount a charter school receives in federal funds depends upon its characteristics related to meeting the requirements set forth by the federal program or grant.

### **Sufficiency of Funding from Other Sources**

A charter school's ability to obtain funding from grants, gifts, and donations depends upon its success applying for grants and attracting gifts and donations from other sources. Therefore, sufficiency of funding from these sources is unique to each charter school and the amount received from these sources will vary among charter schools. During the 2016–2017 school year charter schools received \$1,350,682 from other sources.

### **Charter School Revenue Versus Expenditures**

PEER reviewed each charter school's audited financial statements for FY 2017 to determine whether revenues were sufficient to cover the schools' expenditures. The difference in revenues and expenditures for Reimagine Prep was \$140,046 and the difference for Smilow Prep was \$498,712—both schools' revenues exceeding expenses. However, Midtown's revenues failed to cover its expenses by \$133,206, which according to the school, was due to such costs as building expansion, desks, books, and the loss of the 21st Century Grant.

## **Efficacy of the State Formula for Authorizer Funding**

For purposes of this report, PEER equates efficacy of the MCSAB funding model to be provision of sufficient revenue from charter school fees to fully fund MCSAB operations.

Under state law, the MCSAB receives 3% of annual per-pupil allocations received by charter schools from state and local sources. As occurred in FY 2016, funding from the 3% fee of annual per-pupil allocations was insufficient to fully fund MCSAB operations in FY 2017. The Legislature included additional funding for the board in Institutions of Higher Learning–appropriated funding.

If Mississippi charter schools receive FY 2018 per-student funding equal to amounts received during FY 2017, enrollment of 2,643 charter school students will be necessary

to fund MCSAB FY 2018 operations<sup>3</sup> if those operations were to be based solely on revenue from the 3% fees. The contracts between the charter schools and the board project FY 2018 enrollment to be 776 students.

Until charter school enrollment reaches a level sufficient for the 3% fee combined with any gifts, grants, or donations the authorizer board may receive is large enough to fully fund the board's operations, supplemental legislative funding will continue to be necessary.

## Recommendations

1. The Mississippi Charter School Authorizer Board should formally adopt regulations requiring all charter schools in the state to report quarterly and annual financial information in the format required by the Mississippi Department of Education's accounting manual for Mississippi public school districts. Adoption and enforcement of these regulations would facilitate future comparison of charter school and public school expenditures.
2. Under the current funding model, the Mississippi Charter School Authorizer Board receives 3% of the state and local funds received by charter schools. Therefore, the total amount of funds from sources available to charter schools on a per-pupil basis is less than the total amount of funds provided to public schools on a per-pupil basis. To provide fully equitable state and local funding between public school and charter school pupils, the Legislature should consider amending MISS. CODE ANN. Section 37-28-11(1) to remove the 3% funding the Mississippi Charter School Authorizer Board receives from charter schools' state and local revenue sources. The Legislature should also consider amending the same section to provide that the authorizer board shall be annually funded from any funds available to the Legislature.
3. To ensure funding and accountability of appropriations, the Legislature should consider providing specifically for MCSAB operations by taking one of the following options:
  - a. Because the board is a state agency per MISS. CODE ANN. Section 37-28-7, the Legislature could consider enacting a separate appropriations bill for the board. Such bill should contain the total amount of funds appropriated for the operations of the board and a total number of authorized full and part-time positions.
  - b. The Legislature, while continuing to fund the board through appropriations to Institutions of Higher Learning, could provide a specific line item in the IHL

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<sup>3</sup>The FY 2017 per-student MCSAB 3% fee of \$241.04 is based on 3% fee collections of \$119,314.44 from a combined enrollment of 495 from the three charter schools in operation that year. To obtain FY 2018 revenue solely from the 3% fees, the charter schools would need to enroll 2,643 students bringing in \$241.04 each in order to provide revenue for MCSAB's operating budget of \$637,000.

appropriation for board support with provision for total authorized positions.

4. The Legislature should consider amending MISS. CODE ANN. Section 37-28-55(2) and (3) to require that local ad valorem contributions to charter schools be reconciled each year in the same manner as Mississippi Adequate Education Program payments are reconciled for charter schools in MISS. CODE ANN. Section 37-28-55(1)(b).
5. In order to make the pro rata distribution of local ad valorem funds equitable between school districts and charter schools, the Legislature should consider amending MISS. CODE ANN. Section 37-28-55(2) and (3) to include the charter schools' average daily membership for the first month of the current year in the denominator of the calculation.

**For more information or clarification, contact:**

PEER Committee  
P.O. Box 1204  
Jackson, MS 39215-1204  
(601) 359-1226  
peer.ms.gov

Representative Richard Bennett, Chair  
Long Beach, MS

Senator Videt Carmichael, Vice Chair  
Meridian, MS

Senator Lydia Chassaniol, Secretary  
Winona, MS