

# Memorandum



DATE February 10, 2012

TO The Honorable Mayor and Members of the City Council

SUBJECT Charter Schools and Education Finance Corporations Briefing

On Wednesday, February 15<sup>th</sup> you will be briefed on Charter Schools and Education Finance Corporations. Attached are the briefing materials for your review prior to Wednesday's discussion.

Please contact me if you have any questions.



Ryan S. Evans  
Assistant City Manager

- c:
- Rosa A. Rios, Acting City Secretary
  - Thomas P. Perkins, Jr., City Attorney
  - Craig D. Kinton, City Auditor
  - C. Victor Lander, Administrative Judge
  - A.C. Gonzalez, First Assistant City Manager
  - Ryan S. Evans, Assistant City Manager
  - Jill A. Jordan, P.E., Assistant City Manager
  - Forest E. Turner, Assistant City Manager
  - Joey Zapata, Assistant City Manager
  - Jeanne Chipperfield, Chief Financial Officer
  - Frank Libro, Public Information Office
  - Stephanie Pegues-Cooper, Assistant to the City Manager - Council Office



**City of Dallas**

# CHARTER SCHOOLS AND EDUCATION FINANCE CORPORATIONS BRIEFING TO DALLAS CITY COUNCIL

February 15, 2012

# Briefing Outline

- Background Information on Charter Schools
- Organization and Operations of Charter Schools
- Information about Uplift Education Charter Schools
- School Performance for Traditional Public Schools and Charter Schools
- Construction Financing for Charters
- City Assistance in Education Financing



# Background Information

What is a Charter School?

Charter School Movement

Differences between Charter and Traditional  
Public Schools

Research on Charter Schools

# Overview

## What is a Charter School?

- ❑ **Public education institutions** are open to the public and are publically funded, but governed by an independent charter granted by the State Board of Education
- ❑ Four types of charter schools in Texas
  - ❑ Home-rule school district charters
  - ❑ Campus or campus program charters
  - ❑ Open-enrollment charters (most prevalent in Texas)
  - ❑ College/University charters



# Overview

## What is a Charter School?

- Intended Purpose (Texas Education Code)
  - Improve student learning
  - Increase choice of learning opportunities within the public school system
  - Create professional opportunities that will attract new teachers to the public school system
  - Establish a new form of accountability for public schools
  - Encourage different and innovative learning methods



# Overview

## Charter School Movement

- Term first introduced in 1988
  - ▣ Proposed as an opportunity to provide flexibility in experimenting with new ways of educating students
- Nationwide, more than 5,000 charter schools exist with enrollment of over 1.6 million students (40 states and D.C.) with a waiting list of 365,000
- Minnesota adopted first public school choice programs
- Texas legislation passed in 1995, first schools opened in 1996
- Texas has 390 charter schools with enrollment of 120,000 and 56,000 students on waiting lists
- Within the City of Dallas there were 59 charter schools with an enrollment of over 22,000 in 2010-11
- For 2011-2012 school year, DISD has 230 schools and over 157,000 students.



# Overview

## Differences between Charter and Traditional Public Schools - TX

Charter schools are intended to allow flexibility in student instruction and learning environment to foster innovations and excellence in education and student achievement

Texas School Testing & Standards	Charter	Traditional
Subject to State Accountability Ranking	•	•
Subject to Acceptable Yearly Progress	•	•
State Requirements for Graduation	•	•
TAKS testing	•	•
Instruction Time*		•
Teaching Credentials*		•
Elected Governing Board		•
Class Size/Student to Teacher Ratio		•
School Calendar*		•

\* Charter schools have flexibility in these areas provided they meet minimum standards for funding purposes



# Overview

## Research on Charter Schools

- Rand Corporation (**RAND**)
  - Nationwide study conducted in 2009 reviewed data from 1994 to 2004
  - Found no systematic evidence of charter schools “skimming” high achievers from traditional public schools
  - Charter schools struggle to raise student achievement in their first year of operation; however, there is a general pattern of improvement in performance as charter schools mature



# Overview

## Research on Charter Schools

- Data from Rand study shows that Texas charter schools:
  - ▣ In Texas, students in charter schools are 35.8% African American, 22.5% White, and 39.4% Hispanic, while traditional public schools students are 15.7% African American, 42.4% White, and 39.2% Hispanic.
  - ▣ Evidence of modest improvement in racial integration in Texas charter schools compared to traditional public schools.
    - Most charter schools are located in urban areas which tend to have a more racially diverse population
  - ▣ Impoverished students enrolled in charter schools do significantly better in both reading and math compared to their counterparts in traditional public schools.
- Charter schools may be created to target areas with high concentrations of at-risk populations which can affect their standard achievement measurements



# Organization and Operations

Creating a Charter School

Governance and Service Area

Service Area vs. Preference Zones

Student Selection

Funding

State of Texas School Funding

# Organization and Operations

## Creating a Charter School

- ❑ Eligible entity must apply to State Board of Education to request a charter
  - ❑ Institution of Higher Education
  - ❑ Governmental Entity
  - ❑ Non-profit Corporation
- ❑ Must meet same accountability and performance standards as required of traditional public schools
- ❑ Charters typically granted for 5-year periods, and renewed for 10-year periods
- ❑ Charter can be revoked by State Board of Education



# Organization and Operations

## Governance and Service Area

- Each charter school has authority to set up their own governance structure, appoint governing boards, and establish other administrative structure subject to approval by the State Board of Education
- Service area defined by individual school charter and approved by State Board of Education
  - ▣ Can overlap multiple ISD territories
- Charter may also specify a preference zone



# Organization and Operations

## Service Area vs. Preference Zone

- A service area is a broad geographic region the charter can serve
- A preference zone is a smaller (neighborhood-oriented) area within the service area which encompasses the charter's targeted service population
- Charter schools can weight admissions based on residency within a preference zone to maintain more community focus while still accepting students from the broader service area where space is available
- Typically, charter schools do not provide transportation, which makes the neighborhood preference zones more important



# Organization and Operations

## Student Selection

- All students in approved service area of charter, and in the grade level served by the charter are eligible for enrollment
- If school is oversubscribed (has more applicants than available slots), then selection must be non-discriminatory. Texas allows lottery or first come/first served method
- If using a lottery, it must be name blind; however, preference may be given to siblings of currently enrolled students, children of staff, or, if applicable, a preference zone
- May not use income, or applicant's previous academic achievement as basis of selection
- Charter schools do not recruit individual applicants. Enrollment selection is contingent upon parent initiation and application



# Organization and Operations

## Funding

- Both Charter schools and traditional ISDs receive funding from
  - ▣ State of Texas
  - ▣ Federal programs
  - ▣ Private Sources
- Charter schools cannot
  - ▣ Levy property tax like an ISD
  - ▣ Receive state facilities allotments
  - ▣ Charge tuition or fees, except those that an ISD is authorized to charge





# Organization and Operations

## State of Texas School Funding

- State of Texas provides an allotment on a per pupil basis to all public schools (charter and traditional ISDs)
  - Charter schools are public schools and therefore eligible for State funding
  - Traditional ISDs receive a higher allotment from the State on a per pupil basis because of additional funds they are eligible for (e.g., facilities allotments)
  - On average, charter schools receive \$1,200 less per pupil than a traditional ISD
  - When students opt to not attend either a traditional ISD or a charter school, state education reimbursements would drop
- ISDs are provided a facilities allotment from the state and also have tax-exempt status for bond issuance that charter schools do not have
- EFCs are a mechanism for charter schools to utilize tax-exempt bonds for construction



# Uplift Education

History & Mission

Governance & Funding

School Locations

Enrollment Profile

Growth

# Uplift Education

## History & Mission

### □ History

- ▣ Original charter in 1996
- ▣ Opened first school August, 1997 (North Hills Preparatory – Irving)
- ▣ Now has 9 campuses with 20 schools – 10 schools in City of Dallas
- ▣ Current enrollment of 5,700

### □ Mission

- ▣ Create and sustain public schools of excellence that empower each student to reach their highest potential in college and the global marketplace and that inspire in students a life-long love of learning, achievement, and service in order to positively change their world



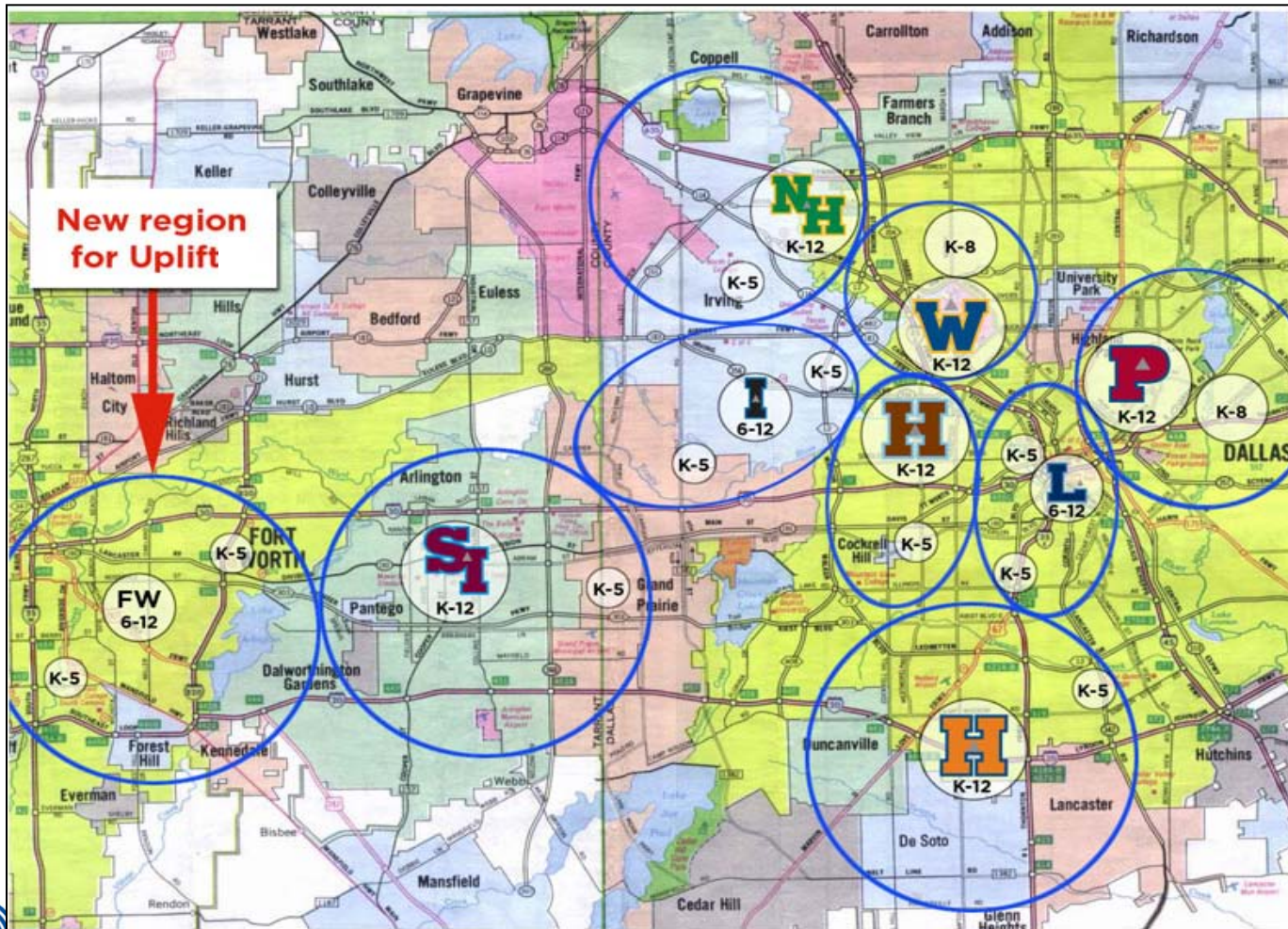
# Uplift Education

## Governance & Funding

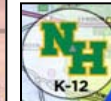
- Governance
  - ▣ Board of Directors
  - ▣ 5 local Community Advisory Boards
    - Based on geographic areas
    - Made up of community members who want to be involved with the school
    - Community Advisory Boards make recommendations and suggestions to the Board of Directors but do not have voting authority.
- Funding
  - ▣ State sources (86%)
  - ▣ Federal sources (10%)
  - ▣ Private donations (4%)



# Uplift Education School Locations



Summit  
International



North Hills



Infinity



Heights



Hampton



Williams



Laureate



Pinnacle



# Uplift Education

## Enrollment Profile

- 5,700 students
  - 64% of students eligible for free/reduced lunch
    - 83% of urban campus students eligible for free/reduced lunch
  - 57% Hispanic
  - 18% African American
  - 16% Asian/Pacific Islander
  - 9% White
- 3,400 students reside in DISD



# Uplift Education

## Growth

- Focus on increasing Uplift's presence within its existing service area (Dallas, Irving and Arlington) and expanding to Fort Worth
  - ▣ Two new school openings in Dallas in 2010-2011
    - Heights Preparatory – West Dallas
    - Laureate Preparatory – Dallas CBD
  - ▣ One new school in Irving and one in Dallas in 2011-12
    - Infinity Preparatory – South Irving
    - Pinnacle Preparatory – South Oak Cliff
  - ▣ One new school in Dallas and two in Fort Worth expected for 2012-13
    - Additional Laureate Preparatory school – Deep Ellum (6-12)



# School Performance

2011 School Accountability Ratings  
2010 TAKS Results (1<sup>st</sup> Grade)



# School Performance

## 2011 School Accountability Ratings

	Exemplary	Recognized	Academically Acceptable	Academically Unacceptable	Not Rated
Texas ISDs	18.5%	55.0%	25.0%	1.6%	0.0%
Texas Charters	24.2%	19.3%	40.6%	11.1%	4.8%
Dallas ISD	13.5%	30.9%	40.8%	14.8%	0.9%
Dallas Charters	12.5%	18.8%	47.9%	6.3%	14.6%
Uplift Education	45.5%	18.2%	18.2%	18.2%	9.1%

Accountability ratings issued by Texas Education Agency



# School Performance

## 2010 TAKS Results (1 1<sup>th</sup> Grade)

	Math	Reading	Science	Social Studies
State of Texas	89%	93%	91%	98%
Texas Charter Schools	90%	94%	92%	98%
Dallas ISD	86%	91%	88%	98%
Dallas Charters (Average)	75%	86%	81%	93%
Uplift Education (Average)	96%	98%	98%	100%

Percentage of students who have scored a commendable or met standards on the various sections of the TAKS (Source: Texas Education Agency)



# Financing

Legislative History

Education Finance Corporations

City of Dallas Conduit Bond History

Conduit Bond Failures

Additional EFC Protections

Qualified School Construction Bonds

Proposed Uplift Bond Issue Timeline

# Financing

## Legislative History

- 1971 - Original Education Finance Corporation (EFC) legislation passed for private schools without bonding capability
- 1995 - State legislation passed to allow for creation of charter schools
- 2001 – EFC legislation expanded to allow charter schools to utilize EFCs
- 2010 – Qualified School Construction Bonds made available via American Recovery and Reinvestment Act (ARRA) legislation
- 2011 – Charter schools eligible for Permanent School Fund (PSF) financing which allows them to qualify for higher bond rating



# Financing

## Education Finance Corporations

- What is an Education Finance Corporation (EFC)?
  - ▣ Finance corporation created to issue tax-exempt bonds on behalf of education entities
- Counties cannot create EFCs
- Governed by an appointed Board of Directors
- EFC is not a City Board. It is a separate non-profit corporation that the City has ability to appoint the Board of Directors
  - ▣ City Staff and Council Members cannot be appointed to Board of Directors by law
  - ▣ Subject to State Open Meetings requirements
  - ▣ Subject to City Ethics Code
- Proposed North Texas Education Finance Corporation
  - ▣ Dallas City Council approves Board of Directors (7-11 directors)
  - ▣ Directors may be removed by majority vote of Dallas City Council with or without cause



# Financing

## Education Finance Corporations

- Education Finance Corporations can issue bonds for
  - Charter Schools
  - Accredited Primary and Secondary Private Schools
  - Private Colleges



# Financing

## City of Dallas Conduit Bond History

- City of Dallas previously created Dallas Higher Educational Facilities Corporation
  - Issued bonds in 1980s for Dallas Baptist University
  - Bonds are no longer outstanding
  - Corporation is no longer in existence



# Financing

## City of Dallas Conduit Bond History

Beneficiary	Finance Corporation	Date	Amount
A.W. Brown Fellowship Charter School	City of Hubbard Education	2002	\$4.5 M
Dallas Arts District	Dallas Performing Arts Cultural Facilities Corporation	2008	\$150 M
Dallas Education Academy	Italy Higher Education	2008	\$4 M
Dallas Museum of Natural History Association	Manvel Cultural Educational Facilities	2005	\$7.25 M
Hockaday	Red River Education	2000, 2005	\$20 M, \$18.75 M
Jesuit	Red River Education	1998, 2006, 2011	\$10 M, \$8.3 M, \$11 M
Lamplighter	Red River Education	2010	\$7.3 M
Northwest Sr. Housing Corporation	Tarrant County Cultural Education Facilities	2006	\$100 M
Presbyterian Hospital	Tarrant County Health Facilities Development Corporation	2003	\$300 M
St. Marks	Red River Education	1999, 2007	\$25 M, \$35 M
Uplift Education	Heart of Texas Education	2008	\$6 M



# Financing

## Conduit Bond Failures

- As of June, 2011, there have been no defaults on bonds issued by charter schools if the bonds were investment grade as of the issuance date (LISC report)
  - 14 defaults on unrated issues
  - **Neither City nor the EFC would have payment obligations with respect to the bonds that the EFC issues**



# Financing

## Additional EFC Protections

- Bond counsel could deliver opinion that City has no obligation on bonds
- Limit issuance of bonds to schools that have investment grade ratings
- City can act to replace EFC board
- City can choose not to authorize individual bond issuances



# Financing

## Qualified School Construction Bonds

- Difference between previous City Council authorizations for charter school construction bonds and current action is the need to issue QSCBs
- Qualified School Construction Bonds are tax-credit (and therefore, effectively low-interest rate) bonds issued for school construction, rehabilitation, repair, land acquisition, and cost of issuance.
  - Authorized by ARRA
    - Estimated to save publicly funded schools \$10 billion in bond interest costs over 10 years
    - Must be issued by an EFC with a geographic nexus to the school requesting the bond
    - State of Texas was allocated \$1.08 billion in QSCBs (to be allocated to ISDs and other eligible schools that did not receive separate allocation directly through ARRA)
    - Dallas ISD may directly issue its allocation of \$143 million in QSCBs



# Financing

## Qualified School Construction Bonds

- Uplift Education anticipates pursuing \$70-90 million of bond financing for regional expansion, \$36 million of which is expected for projects in Dallas.
  - ▣ Of the \$36 million dollars, Uplift Education has been allocated \$15 million in QSCBs from the State of Texas to spend on Dallas projects
- In order to issue the QSCBs, Uplift must have the bonds issued by an EFC with a geographic nexus to the area where the revenues will be spent
- If QSCBs are not available to Uplift, Uplift could use another EFC such as Red River Education Finance Corporation to obtain financing, as other Dallas private and charter schools have done in the past.



# Financing

## Proposed Uplift Bond Issue Timeline

- February 22 - Council approves EFC
- February 27 - EFC board meets
- February 29 - Public Hearing called
- March 5 - City of Dallas Finance Committee meets
- March 15 - Public Hearing held
- March 28 – Review of Public Hearing comments and City Council action
- April 17 - Price bonds
- April 25 – Bond issuance



# Appendix

# Proposed Initial Board Members

**Tricia Dzina** (75243) has served in various education roles within the Dallas metroplex – high school teacher, GED Coordinator, and pre-school curriculum lead/teacher. She has lived in Dallas for over 30 years and is a graduate of Texas Tech University.

**Grady (Buddy) Johnson, Jr.** (75240) is a non-practicing CPA. He has been a real estate investor in Dallas for 40+ years and has worked with charter schools in such capacity. He is also involved as an Elder in First Presbyterian Church and a Director of Interfaith Housing Coalition.

**Mitch Paradise** (75214) is the Vice President of Corgan Associates, Inc. He has been with Corgan Associates, Inc. for 14 years. Mr. Paradise is a lifelong resident of the City of Dallas and received his degree in Architecture from Texas A&M.

**Catherine Manning** (75201) is a retired partner of PricewaterhouseCoopers, LLP. During her career, she served in Dallas, New York, in Washington DC and in Atlanta. Ms. Manning is a graduate of Southern Methodist University and currently serves on the Boards of the YWCA of Metropolitan Dallas and the Dallas Symphony Orchestra.

**David Ray** (75201) has been a Principal at St. Anthony School, a recognized and IB authorized school, for 8 years. He also taught at DISD for 8 years prior to coming to St Anthony. Prior to that, he was in private industry as a degreed accountant and MBA.

**Greg Johnson** (75243) is a healthcare strategy and operations consultant with 15 years in the industry. He is a 1995 graduate of Texas A&M with a B.S. in Biochemistry and Genetics and a 1997 graduate of Trinity University with a Masters degree in Healthcare Administration.

**Gary Scott** (75229) currently works for Solender/Hall, a commercial real estate firm where he has worked with charter schools. He has a J.D. and is a licensed real estate broker.

