



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

EVALUATION REPORT

Charter Schools

JUNE 2008

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

June 2008

Members of the Legislative Audit Commission:

During the 2006-07 school year, almost 24,000 students attended Minnesota charter schools. Minnesota charter schools are held accountable to the same academic and fiscal standards as school districts, although they are given some flexibility in how they achieve these standards. In return for this flexibility, charter schools are subject to oversight by both the Minnesota Department of Education (MDE) and sponsors (organizations qualified to authorize charter schools).

We found that a greater percentage of Minnesota charter schools failed to make Adequate Yearly Progress (AYP) than district schools. And, in general, charter school students did not perform as well on Minnesota's standardized assessments as students who attended district schools. However, when we accounted for certain school and student characteristics, the differences in performance were significantly diminished.

We also found that oversight of charter schools is complicated and complex and often leads to duplication of effort or gaps in oversight. Sponsor organizations are not held accountable to minimum standards, and they vary widely in the amount of oversight they provide and their ability to provide it.

To improve charter school oversight, we recommend that the Legislature clarify the roles of MDE and sponsors. Specifically, we recommend that the Legislature give MDE the authority to develop and implement minimum standards for sponsors. We also recommend that the Legislature give MDE the authority to directly approve sponsors and give sponsors increased authority to directly approve charter schools.

This report was researched and written by Judy Randall (evaluation manager), Christina Connelly, and Katie Piehl, with assistance from Dan Jacobson and Sarah Roberts. The Minnesota Department of Education cooperated fully with our evaluation.

Sincerely,

A handwritten signature in black ink that reads "Jim Nobles".

James Nobles
Legislative Auditor

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Summary

Accountability and oversight for charter schools and their sponsors should be strengthened.

Major Findings:

- In 2007, a greater percentage of Minnesota charter schools than district schools failed to make “Adequate Yearly Progress,” and students in charter schools generally did not perform as well on standardized academic measures as students in district schools (pp. 15-24).
- However, after accounting for relevant demographic factors and student mobility rates, the differences in student performance were minimal (pp. 15, 24-27).
- Oversight of charter schools is unclear and complex, with duplication in some areas and gaps in others (pp. 36-37).
- Charter school sponsors vary in the amount of oversight they provide and in their ability to provide it. In addition, expectations for sponsors are not clear, and the Minnesota Department of Education’s (MDE) role in sponsor oversight is not clearly outlined in law (pp. 38-43).
- Both sponsors and MDE approve charter school applications, which leads to inefficiencies and duplication of effort (p. 46).
- In contrast to school district board members, charter school board members are not required to attend financial management training and many do not (p. 44).

- Minnesota’s conflict of interest laws for charter school boards are weaker than comparable federal requirements and do not fully address conflicts of interest with relatives, nonprofit organizations, and sponsors (pp. 53-54).
- Requiring a teacher majority on charter school boards creates a conflict of interest and makes it more difficult to obtain needed expertise (pp. 55-56).

Key Recommendations:

- The Legislature should clarify the roles of MDE and sponsors with respect to charter school oversight by (1) requiring MDE to approve sponsors and (2) increasing sponsors’ authority (p. 47).
- MDE should implement standards for charter school sponsors and provide additional training to improve sponsor expertise (p. 51).
- The Legislature should require all new charter school board members to attend financial management training within one year of being elected (p. 52).
- The Legislature should expand the charter school board conflict of interest laws to parallel federal requirements (p. 57).
- The Legislature should amend the charter school law to remove the requirement that teachers comprise a majority of charter school board members (p. 58).

Charter schools are located across Minnesota and served almost 24,000 students during the 2006-07 school year.

Despite limited data, some important insights about the performance of charter schools are possible.

Report Summary

In 1991, Minnesota became the first state to enact a charter school law, which allowed public schools to be formed outside of the traditional school district structure. During the 2006-07 school year, almost 24,000 students, or 3 percent of the state's K-12 student population, attended Minnesota charter schools. Charter schools are located across the state and many serve a larger percentage of minority students or students eligible for free or reduced-price lunch than district schools.

By law, charter schools are exempt from some statutes and rules that apply to school districts. However, charter schools must meet the state's education standards and must meet Adequate Yearly Progress (AYP) requirements under the federal No Child Left Behind Act (NCLB).

The analysis in this report provides important insights into charter school student performance; but, the results should be interpreted with care given the challenges and limitations of the analysis. A key challenge was finding appropriate district schools to compare with each charter school. A key limitation was having to rely on the Minnesota Comprehensive Assessments, Series II (MCA-II) exams, which measure student performance at one point in time, rather than tests that measure growth in student performance.

In 2007, a greater percentage of charter schools failed to make AYP than district schools, although results varied by region.

As required by NCLB, all Minnesota public schools, including

charter schools, must reach targets in student testing participation rates and in math and reading proficiency rates. Only half of Minnesota charter schools made AYP in 2007; more than two-thirds of district schools made AYP during this same time period. However, these results varied by region. In Minneapolis and St. Paul, a larger percentage of charter schools made AYP than district schools.

After accounting for certain factors, the differences in charter and district school students' performance on the 2007 MCA-II exams were minimal.

To account for the potential effects of demographic differences among charter and district schools, we compared charter schools' performance to that of district schools in the same region with similar student demographics (percentages of minority students and students eligible for free or reduced-price lunch).¹

When compared to district schools with similar demographics, charter schools generally did not perform as well on the 2007 MCA-II exams. Specifically, only 15 percent of charter schools performed better on the MCA-II exams than district schools with similar demographics. More than half of charter schools performed worse than comparable district schools on the MCA-II math exam and nearly 40 percent performed worse on the reading

¹ To measure the performance of a school (or group of schools), we first converted student test scores to a standard scale. This made the scores comparable across grade levels. We then averaged the student test scores to determine a composite reading and math score for each school or group of schools.

Charter school sponsors have a mixed record.

exam. In many cases, there was no significant difference between the scores of charter schools and their comparison district schools.

When we accounted for student mobility rates (in addition to region, percentage of minority students, and percentage of students eligible for free or reduced-price lunch), charter school students still had lower MCA-II scores than students in the comparable district schools, but the differences in performance diminished significantly.

Charter school oversight responsibilities are not clear, leading to duplication and gaps in oversight.

To establish a charter school, developers must submit an application to and be approved by a sponsor (an organization qualified to authorize a charter school). MDE must then approve the sponsor's intent to authorize the charter school, which it chooses to do by also approving the school's application.

This double approval of charter school applications is a duplication of effort. According to MDE staff, the department originally implemented its charter school application process in part to compensate for lax oversight by sponsors. However, many of the ten sponsors we visited have a rigorous application process that charter school developers must complete before the sponsor will agree to authorize a school. MDE's approval of charter school applications is a duplication of effort and undermines sponsors' authority. Sponsors and charter school staff said this double application process leads to

confusion about which entity has oversight authority of the school.

In addition to authorizing new charter schools, sponsors must monitor their charter schools' financial and academic performance. However, some sponsors do not fulfill their responsibility, leading to gaps in charter school oversight. One sponsor we visited did not know the charter school she sponsors had not made AYP in the previous year; another sponsor reviews his charter school's annual report but otherwise does not monitor the academic or financial performance of the school.

Expectations for charter school sponsors are not clear.

Almost half of the sponsors that responded to our questionnaire indicated that the sponsor's role is not clear. One sponsor we visited said he does not know what the role of the sponsor is. Furthermore, sponsors vary in the amount of oversight they provide and in their ability to provide it. Some sponsors meet with their charter schools monthly, review financial statements, and attend board meetings. In contrast, some sponsors meet only once a year with their charter schools and do not require regular reports.

MDE's role in overseeing sponsors is not clearly defined in law. The law does not explicitly give MDE authority to approve sponsors, only the authority to approve a sponsor's intent to authorize a specific charter school. MDE staff believe they do not have the authority to directly approve sponsors or require them to meet standards. Almost 90 percent of the sponsors who responded to our questionnaire thought that they

In addition, the Department of Education's role in overseeing sponsors is not clearly defined in law.

Training requirements for charter school board members are inadequate.

The requirement that teachers comprise a majority of a charter school's board should be repealed.

should meet a minimum set of standards before they are allowed to sponsor a charter school.

Charter school board members are not required to attend financial management training.

By law, MDE must provide financial management training to newly-elected charter school board members; however, board members are not required to attend the training. This is in contrast to requirements for school district board members, who must attend financial management training within 180 days of being elected.

MDE provides two types of financial management training: one for board members of new charter schools and another for staff and board members of existing charter and district schools. MDE requires board members of new charter schools to attend financial management training before they are allowed to open their schools. However, training for board members of existing schools is not required, and MDE's training is not targeted to charter school board members—it is available to all school district and charter school staff. According to MDE staff, charter school board member participation in financial management training is lacking. Additionally, many charter school staff told us that their board members do not attend MDE's financial management training.

Minnesota's conflict of interest law for charter school boards is not sufficient.

Minnesota's conflict of interest law for charter school boards does not adequately address potential

conflicts of interest with nonprofit organizations, close relatives, or sponsors. Under state law, charter school board members could have a financial interest in a nonprofit organization, or a close relative of a board member could have a financial interest in a for-profit organization, with which the charter school does business. These situations are prohibited under federal conflict of interest laws, which apply if the charter school is receiving federal funds. Additionally, Minnesota law does not require disclosure of all financial relationships between sponsors and the charter schools they authorize.

A state law requiring a teacher majority on charter school boards leads to conflicts of interest.

Minnesota is the only state that requires charter school boards to have a teacher majority. This requirement contradicts best practices for nonprofit management. Additionally, in our 2003 report on charter school financial accountability, we found that the lack of an independent school board contributed to financial management problems for some charter schools.

Many charter school staff and sponsors with whom we met said that having a teacher majority on the charter school board can lead to a conflict of interest. One sponsor noted that the teacher majority requirement creates a "circular" form of oversight, where the teachers oversee the director, who in turn oversees the teachers. In addition, requiring charter school boards to have a teacher majority limits charter schools' ability to have people with the necessary expertise on their boards.

Introduction

In 1991, Minnesota became the first state to enact a charter school law, allowing public schools to operate outside the administrative control of school districts. Charter schools now operate in 40 states and the District of Columbia. In Minnesota, parents, teachers, and community members can establish charter schools that often focus on a specific subject (such as language, math, or art); a specific education model (such as Montessori or project-based learning); or a specific population (such as recent immigrants or students recovering from chemical dependency). During the 2006-07 school year, almost 24,000 students attended Minnesota charter schools.

In April 2007, the Legislative Audit Commission directed the Office of the Legislative Auditor to evaluate charter schools. Legislators had questions about the achievements of charter schools and whether students who attend charter schools are performing adequately on key academic measures. Legislators also had questions about the oversight and accountability of charter schools. In addition to providing an overview of Minnesota's charter school system, this evaluation addresses the following questions:

- **What programs do charter schools offer, and what types of students do they serve?**
- **How does charter schools' academic performance compare with that of district schools? What factors contribute to any differences?**
- **How well do sponsors (organizations that authorize charter schools) and the Minnesota Department of Education oversee charter schools?**
- **To what extent have charter schools experienced financial difficulties?**
- **To what extent has the Minnesota Department of Education implemented recommendations made in the Office of the Legislative Auditor's 2003 report on charter school financial accountability?**

To learn about the programs charter schools offer, we sent a questionnaire to all Minnesota charter schools, reviewed charter school web sites, and visited 14 charter schools across the state (about 10 percent of the charter schools in Minnesota). We examined student demographic and assessment data to analyze charter schools' performance and compared their performance with that of district schools. As part of this analysis, we also examined factors such as student mobility rates, the percentage of students with limited English proficiency, and the percentage of students who receive special education

services to evaluate the extent to which they contributed to differences in charter and district school academic performance.

To assess how well sponsors and the Minnesota Department of Education (MDE) oversee charter schools, we sent a questionnaire to all sponsors, visited 10 sponsors (almost 20 percent of sponsors in Minnesota), interviewed MDE and charter school staff, and met with several stakeholders. We also reviewed Minnesota statutes, and we reviewed national literature to learn more about how other states hold their charter schools accountable.

We also analyzed charter school financial data and compared charter schools' financial health to that of school districts. Finally, we met with MDE staff and reviewed their procedures to learn how their practices have changed since our office's 2003 report on charter school financial accountability.

This report is divided into three chapters. Chapter 1 provides background information on charter schools, including an overview of Minnesota charter school law, demographic information about charter school students, and information on other charter school characteristics. In Chapter 2, we compare charter and district school performance on the state's standardized assessments, accounting for some differences in schools' student demographics, such as the percentage of minority students and students who qualify for free or reduced-price lunch. Chapter 3 focuses on charter school oversight and accountability. In this chapter, we evaluate the roles of sponsors and MDE and discuss charter school board conflicts of interest. Finally, several appendices at the end of the report provide additional data and analysis.

Background

SUMMARY

In the 2007-08 school year, there were 143 charter schools operating in Minnesota. Charter schools are subject to many, but not all, Minnesota statutes that apply to school districts. To establish a charter school, developers must submit an application to and be approved by a sponsor (an organization that authorizes and monitors charter schools). The Minnesota Department of Education must then approve the sponsor's intent to authorize the charter school. About 3 percent of Minnesota's K-12 students attend charter schools. Charter schools have significantly larger percentages of minority students, students who qualify for free or reduced-price lunch, and students with limited English proficiency than district schools.

Charter schools are located across Minnesota and provide a variety of educational opportunities for K-12 students. Because they are outside of the traditional school district structure, charter schools are exempt from some statutes that apply to school districts. However, there are other requirements (for example, regarding establishing charter schools and complying with ongoing oversight) that charter schools must meet. This chapter provides an overview of Minnesota charter schools and addresses the following questions:

- **How are charter schools established, and what requirements must they satisfy?**
- **What programs do charter schools offer?**
- **What types of students attend charter schools? How do charter school student demographics compare with those of district schools?**

To answer these questions, we reviewed Minnesota charter school laws and the Minnesota Department of Education's (MDE) charter school policies and practices to understand how charter schools are established and the requirements they must satisfy. To learn about the types of programs charter schools offer, we sent a questionnaire to all charter schools in the state, conducted site visits of 14 charter schools (about 10 percent of Minnesota charter schools), and reviewed charter schools' web sites. Finally, we analyzed MDE data to compare charter and district school student demographics.

CHARTER SCHOOL LAW

A charter school is a public school that is formed by parents, teachers, or community members and operates outside of the traditional school district

Every charter school must have a sponsor who authorizes the school and monitors the school's fiscal and academic performance.

structure. Charter schools are nonsectarian, may not charge tuition, and cannot limit admission based on achievement, aptitude, or athletic ability.¹

Each charter school is managed by a school board that is elected by the charter school staff and parents of children enrolled in the school. By law, a charter school board must have at least five members.² Minnesota is the only state that requires licensed teachers employed at the charter school to comprise a majority of the school's board, although the commissioner of MDE has the authority to waive this requirement upon request.³ Charter schools must incorporate as a cooperative or as a nonprofit corporation under Minnesota law.⁴

Each charter school must also have a sponsor. The sponsor authorizes establishment of the school and later must monitor and evaluate the fiscal and academic performance of the school.⁵ As outlined in law, sponsors must be one of the following types of organizations: (1) school boards, intermediate school district school boards, or education districts;⁶ (2) nonprofit organizations with an end-of-year fund balance of at least \$2 million; or (3) Minnesota higher education institutions.⁷

In law, charter schools are exempt from "all statutes and rules applicable to a school, a board, or a district," except for those requirements set forth in *Minnesota Statutes* 124D.10.⁸ For example, unlike district school administrators, charter school administrators are not required to hold an administrator's license.⁹ However, statutes require charter schools to meet many of the same requirements as district schools, such as health and safety requirements and special education requirements, among others.¹⁰ Table 1.1 lists select education laws that apply to district schools that also apply to charter schools. As noted in the table, charter school students are held accountable to the state's education standards and must take Minnesota's standardized assessments.

¹ *Minnesota Statutes* 2007, 124D.10, subds. 8(c), 8(f), and 9.

² *Minnesota Statutes* 2007, 124D.10, subd. 4(c).

³ Unless they receive a waiver, charter schools must have a teacher majority on their school boards by the end of their third year of operation. See *Minnesota Statutes* 2007, 124D.10, subd. 4(c).

⁴ *Ibid.*

⁵ *Minnesota Statutes* 2007, 124D.10, subds. 4 and 15(b).

⁶ Education districts are multi-purpose education cooperatives that serve a number of school districts. Typically, education districts provide staff development opportunities and special education services, among other things.

⁷ *Minnesota Statutes* 2007, 124D.10, subd. 3. Certain other nonprofit organizations that have less than \$2 million in assets may also sponsor charter schools if (1) the charter school has already been in operation for at least three years, and (2) the nonprofit organization has existed for at least 25 years. MDE sponsors ten charter schools under a continued provision of a previous law; however, the department is prohibited from sponsoring any additional charter schools.

⁸ *Minnesota Statutes* 2007, 124D.10, subd. 7.

⁹ *Minnesota Statutes* 2007, 124D.10, subd. 11.

¹⁰ *Minnesota Statutes* 2007, 124D.10, subds. 8 and 12.

Charter schools must comply with numerous state education laws.

Table 1.1: Select Minnesota Education Laws that Apply to District and Charter Schools

Charter schools must:

- Adhere to compulsory attendance laws;
- Administer statewide standardized assessments;
- Comply with educational data requirements;
- Comply with requirements regarding the length of the school year;
- Comply with special education requirements;
- Comply with the Minnesota Human Rights Act;
- Comply with the Pupil Fair Dismissal Act regarding when and how to suspend, exclude, and expel students;
- Conduct financial audits, follow audit procedures, and comply with audit reporting requirements;
- Conform to required academic standards;
- Enforce requirements regarding reciting the Pledge of Allegiance;
- Ensure equal opportunity in athletic programs;
- Ensure that teachers satisfy teacher licensure requirements;
- Follow all relevant state and local health and safety requirements; and
- Follow the Minnesota Public School Fee law regarding authorized and prohibited fees.

SOURCES: [Minnesota Statutes](#) 2007, 13.32; 120A.22; 120B.021; 120B.30; 121A.04; 121A.11; 121A.40 to 121A.56; 123B.34 to 123B.39; 124D.10; 125A; and 363A.

To open a charter school, charter school developers (parents, teachers, or community members) must submit an application to a sponsor, who then decides whether to approve the application and authorize the school. Once the sponsor approves the application, the sponsor must file an affidavit with MDE stating its intent to authorize the school. MDE must review the sponsor's affidavit and approve or disapprove it. If MDE does not approve the sponsor's affidavit, the sponsor may not authorize the charter school.¹¹

Once MDE approves a sponsor's affidavit to authorize a charter school, the sponsor and developers enter into a contract, or "charter." Through the contract with its sponsor, a charter school must demonstrate how it will fulfill at least one of the following six charter school purposes outlined in law:

- Improve pupil learning;
- Increase learning opportunities for pupils;
- Encourage the use of different and innovative teaching methods;
- Require the measurement of learning outcomes and create different and innovative forms of measuring outcomes;

¹¹ [Minnesota Statutes](#) 2007, 124D.10, subd. 4(b).

- Establish new forms of accountability for schools; or
- Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.¹²

Additionally, the contract must outline how the sponsor will oversee the fiscal and student performance of the charter school. In return for this oversight, the sponsor may assess a charter school \$30 per student, up to a maximum of \$10,000 in the school's first three years, and \$10 per student, up to a maximum of \$3,500, in subsequent years.¹³

By law, the duration of a charter school contract may be no longer than three years.¹⁴ Before the contract can be renewed, the sponsor must conduct an evaluation of the charter school and submit the evaluation to MDE for review and comment. Sponsors can also choose not to renew a contract at the end of the contract term. Sponsors may terminate a charter school contract during the term of the contract for a school's failure to meet the pupil performance requirements in the contract, failure to meet generally accepted standards of fiscal management, violations of law, or other "good cause."¹⁵ Additionally, MDE may terminate a charter school contract if the school has a history of financial mismanagement or repeated violations of the law.¹⁶ MDE has never used this authority.

A charter school may apply to MDE to change its sponsor if the school or its existing sponsor chooses to terminate or not renew the contract. MDE must approve the change in sponsor, and the existing sponsor must report to the new sponsor on the school's fiscal and student performance. In total, 19 Minnesota charter schools have changed sponsors since 1992. MDE has never approved a transfer of sponsorship for a charter school whose sponsor has terminated or not renewed its contract for cause.

A charter school can be closed for cause by either its sponsor or the Minnesota Department of Education.

CHARTER SCHOOL OVERVIEW

Table 1.2 shows the number of charter schools that were approved, opened, or closed since 1991, as well those that were operating each year. In the 2007-08 school year, there were 143 charter schools in operation and 15 schools approved but not yet open. As shown in Figure 1.1, the schools are located across the state, although a majority are located in the Twin Cities metropolitan area. More specifically, almost one-quarter of the state's charter schools are located in Minneapolis, about 20 percent are located in St. Paul, and more than 20 percent

¹² *Minnesota Statutes* 2007, 124D.10, subds. 1 and 6(1).

¹³ *Minnesota Statutes* 2007, 124D.10, subd. 15(b).

¹⁴ *Minnesota Statutes* 2007, 124D.10, subd. 6(9).

¹⁵ *Minnesota Statutes* 2007, 124D.10, subd. 23(b).

¹⁶ *Minnesota Statutes* 2007, 124D.10, subd. 23(d).

Table 1.2: Charter Schools Approved, Opened, Operating, and Closed, 1991 to 2007

	Number of Charter Schools:			
	Approved	Opened ^a	Operating	Closed
1991	1	0	0	0
1992	3	1	1	0
1993	3	5	6	0
1994	7	7	13	0
1995	5	4	17	0
1996	1	3	19	1
1997	8	6	24	1
1998	13	14	38	0
1999	22	16	53	1
2000	16	14	62	5
2001	14	11	66	7
2002	13	12	77	1
2003	21	12	87	2
2004	31	19	104	2
2005	8	22	121	5
2006	18	12	131	2
2007	<u>11</u>	<u>15</u>	143	<u>3</u>
Total	195	173	143 ^b	30

NOTE: Years reported are calendar years.

^a Seven of the approved charter schools never opened and 15 plan to open no earlier than September 2008.

^b Number of schools operating as of December 2007.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education charter school data.

are located in the Greater Metropolitan area excluding the two inner cities. Just over one-third of the state's charter schools are located in Outstate Minnesota.¹⁷

Charter School Characteristics

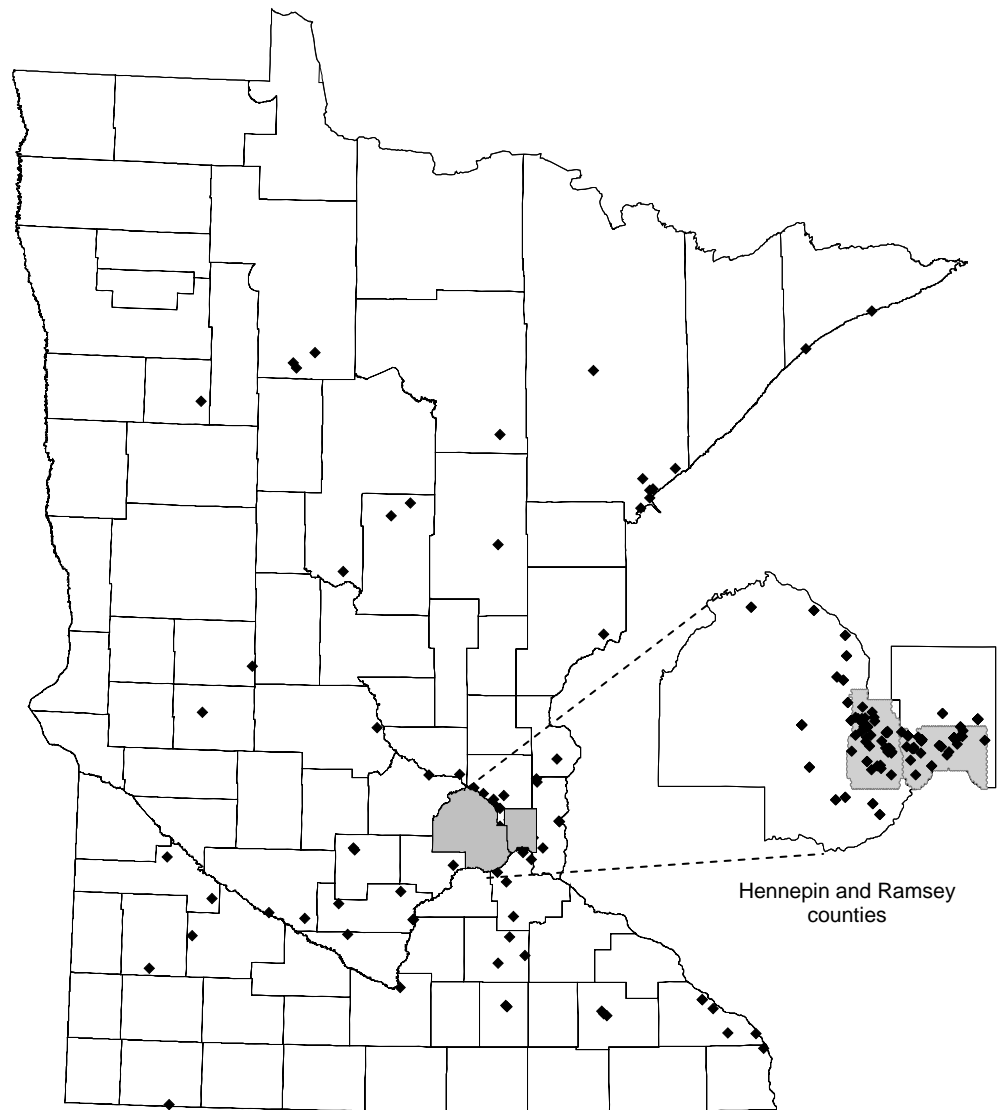
Most charter schools are small, with total enrollment of fewer than 200 students. In the 2006-07 school year, only one-third of charter schools had more than 200

¹⁷ In this report, "Greater Metropolitan area" refers to the seven-county metropolitan region (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties) excluding Minneapolis and St. Paul. "Outstate Minnesota" refers to the parts of the state outside of the seven-county metropolitan region.

The number of charter schools in Minnesota has increased each year since they were first authorized.

Figure 1.1: Charter School Locations, 2008

**Charter schools
are located across
Minnesota.**



NOTE: Minnesota had 143 charter schools with 169 sites in the 2007-08 school year. This map shows the 169 charter school sites operating in the 2007-08 school year.

SOURCE: Office of the Legislative Auditor.

students; the largest charter school had over 500 students.¹⁸ This is in contrast to district schools, which enrolled an average of more than 400 students; some district schools enrolled more than 3,000 students. Charter schools serve all grade levels and have a variety of grade configurations, such as pre-kindergarten

¹⁸ Four other charter schools had larger enrollments in the 2006-07 school year (of about 600, 800 and almost 1,300 students) but all had multiple school sites.

Charter schools have increased educational choices for Minnesota students.

through eighth grade, sixth through twelfth grade, and ninth through twelfth grade.

Charter schools provide students and families a variety of educational options in terms of the mission of the school, the subject focus, and the type of students served. For example, some charter schools, such as Cedar Riverside Community School in Minneapolis and Ridgeway Community School in Houston, emphasize civic responsibility and community service. Other schools, such as Augsburg Academy for Health Careers in Minneapolis, Ubah Medical Academy Charter School in Hopkins, and the St. Paul Conservatory for Performing Arts in downtown St. Paul, center their programs on specific careers. Some charter schools focus on a certain student population, such as African-American, Native American, Hmong, or immigrant students; or students recovering from alcohol or drug dependency.

Rather than focus on a certain subject matter or group of students, some charter schools center their programs on an educational model or curriculum. For example, Minnesota New Country School in Henderson, Jennings Experiential High School in St. Paul, and River Heights Charter School in West St. Paul, among others, use a project-based learning approach.¹⁹ Other charter schools employ a specific type of curriculum. For example, Minneapolis Academy and Beacon Academy in Plymouth use the Core Knowledge curriculum;²⁰ Swan River Montessori Charter School in Monticello and The World Learner School of Chaska both use a Montessori curriculum.²¹

Regardless of whether a charter school's focus is on serving a particular student body, implementing an educational model, or employing a specific curriculum, collectively, charter schools have increased educational choices for Minnesota students.

Charter School Student Demographics

During the 2006-07 school year, almost 24,000 students, or about 3 percent of Minnesota's K-12 student population, attended charter schools. Minnesota charter school students differed from students who attended district schools in Minnesota.

In the 2006-07 school year, Minnesota charter schools served significantly larger percentages of minority students, students eligible for free or reduced-price

¹⁹ Under a project-based learning approach, students work on projects they have developed and that address their specific interests. Students often work independently and at their own pace, outside of a structured classroom setting. Students fulfill state academic standards through their work on these projects.

²⁰ The Core Knowledge curriculum is a specific curriculum that outlines what students should learn for every grade level and subject. For example, the Core Knowledge curriculum outlines specific books to read and subjects to cover.

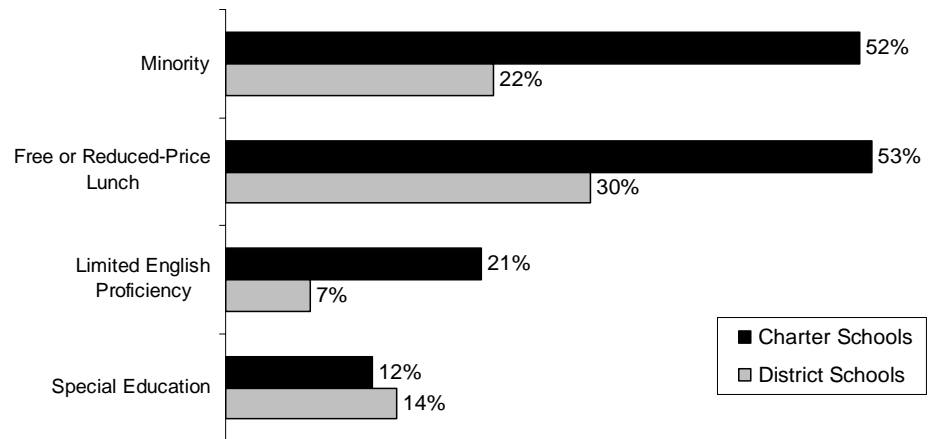
²¹ In a Montessori program, students are clustered in multi-age groups, and the curriculum is integrated across a number of disciplines. Emphasis is on students learning through direct experience, rather than through teacher-directed lectures.

lunch, and students with limited English proficiency than district schools. As shown in Figure 1.2, in the 2006-07 school year, 52 percent of charter school students were minority students, as compared with 22 percent of district school students. During the same school year, 53 percent of charter school students qualified for free or reduced-price lunch, while only 30 percent of district school students qualified for this program. Similarly, 21 percent of charter school students were designated as having limited English proficiency during the 2006-07 school year, in contrast with 7 percent of district school students. Charter schools had a slightly lower percentage of students participating in special education programs than district schools (12 percent as compared with 14 percent).

Figure 1.2: Demographic Characteristics of Charter and District School Students, 2007

Overall, Minnesota charter schools enroll higher percentages of minority students, students eligible for free or reduced-price lunch, and limited English proficiency students than district schools.

Percentage of Enrollment



NOTE: Data are for all charter schools and noncharter public schools operating during the 2006-07 school year.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic data.

Demographic differences between charter and district schools varied by region. As shown in Table 1.3, Minneapolis charter schools served a larger percentage of minority students, students eligible for free or reduced-price lunch, and students with limited English proficiency than Minneapolis district schools. Notably different than charter schools in Minneapolis, St. Paul charter schools had lower percentages of these students than St. Paul district schools. In the Greater Metropolitan area and Outstate Minnesota, charter and district schools served roughly comparable groups of students, although charter schools in both of these

Table 1.3: Demographic Characteristics of Charter and District School Students by Region, 2007

	Minority		Free or Reduced-Price Lunch		Limited English Proficiency		Special Education	
	Charter	District	Charter	District	Charter	District	Charter	District
Minneapolis	85%	72%	78%	65%	37%	23%	9%	16%
St. Paul	73	74	66	69	36	40	11	17
Greater Metropolitan	28	22	26	20	7	6	13	13
Outstate Minnesota	16	12	39	32	3	3	17	14
Statewide	52%	22%	53%	30%	21%	7%	12%	14%

NOTES: Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Data for “districts” include all noncharter public schools. Data are for all charter schools and noncharter public schools operating during the 2006-07 school year.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic data.

regions had higher percentages of minority students and students that qualified for free or reduced-price lunch.²²

Charter school student demographics also vary within each region; a school’s demographics can mirror the local community or be quite distinct. For example, the average St. Paul district school had minority enrollment of 74 percent in the 2006-07 school year. In contrast, the Twin Cities German Immersion Charter School in St. Paul had minority enrollment of less than 10 percent, and the Higher Ground Charter School and Hmong Academy Middle School, both also in St. Paul, had 100 percent minority enrollment. Similar disparities in the percentages of students who qualify for free or reduced-price lunch, limited English proficiency services, and special education services exist among charter schools across the state.

²² Because nearly half of all Minnesota charter schools are located in Minneapolis and St. Paul, charter schools in these regions may drive the student demographics for charter schools statewide.

Charter School Performance

SUMMARY

In general, Minnesota charter schools did not perform as well as district schools on Minnesota's 2007 standardized assessments, and a smaller percentage of charter schools made Adequate Yearly Progress than district schools. However, charter school performance varied significantly by geographic region. In addition, when we took account of region, percentage of minority students, percentage of students eligible for free or reduced-price lunch, and student mobility rates, the differences between charter and district school student performance were minimal. Based on indicators related to year-end fund balances, charter schools' financial health is comparable to that of school districts.

Although charter schools are free from some state regulations, they must meet many of the same academic and financial standards as district schools. Specifically, to comply with the federal No Child Left Behind Act (NCLB), charter schools must demonstrate Adequate Yearly Progress (AYP)—a measure based on overall student attendance, academic performance, and graduation rates—and students attending charter schools must meet academic proficiency rates in math and reading on state standardized assessments. Moreover, charter schools must demonstrate fiscal stability through annual financial audit requirements.

This chapter compares charter and district schools' academic and fiscal performance. Specifically, this chapter addresses the following questions:

- **How does the academic performance of charter schools compare with that of district schools? What factors contribute to any differences?**
- **To what extent have charter schools experienced financial difficulties?**

To assess charter schools' academic performance, we examined charter and district school data from the Minnesota Department of Education (MDE) for the 2006-07 school year.¹ Specifically, we analyzed statewide AYP data for charter and district schools, and we compared the scores of charter school students with those of students in district schools on the state's standardized assessments—the Minnesota Comprehensive Assessments, Series II (MCA-II). To account for potential differences in student populations, we also grouped charter schools with district schools that had similar student demographics and compared scores

¹ In this chapter, we refer to the 2006-07 school year as 2007.

within these groupings. To examine other factors that may affect the performance of some charter schools, we looked at the extent to which charter schools face high rates of student mobility, high percentages of students with limited English proficiency, or high percentages of special education students compared to district schools. We then analyzed these factors in relation to charter and district school student performance on the MCA-II assessments.

To understand other methods used by some charter schools to measure achievement, such as alternative assessments, we interviewed school directors and school board members from 14 (about 10 percent) of the charter schools in Minnesota. We also reviewed the results of these assessments for some of the schools that we visited.

To evaluate the fiscal health of charter schools, we examined the fund balances of charter and district schools over a five-year period. We also evaluated the extent to which the same charter schools experienced financial difficulties from year to year. We compared these results to the Office of the Legislative Auditor's (OLA) 2003 evaluation, *Charter School Financial Accountability*, to assess whether charter schools have improved their fiscal stability since that time.

To make comparisons, we matched each charter school with similar district schools.

While the analysis in this chapter provides important insights into charter school student performance, the results should be interpreted with care given the challenges and limitations of the analysis. A key challenge was finding appropriate district schools to compare with each charter school. A key limitation was having to rely on achievement-based assessments such as the MCA-II tests, which measure student performance at one point in time, rather than tests that measure growth in student performance.²

To find appropriate district schools to compare with each charter school, we grouped schools based on three characteristics: region, percentage of minority students, and percentage of students eligible for free or reduced-price lunch.³ Through our grouping process (discussed further in the methodology section on page 19 and in Appendix A), we were able to somewhat control for the effect of these three factors on student performance. Because of the limitations of relying on MCA-II assessment data, it is important to note that our analysis reflects academic performance at one point in time, rather than growth in performance while enrolled in school. Thus, if students in one school outperform students in a second school, the difference could be due to the fact that students in the first school were already ahead of students from the second school when they first enrolled in the school, or that students from the first school progressed faster than the other students while in school. Statewide data are not adequate to determine the extent to which test score differences are due to these two factors.

² The challenges and limitations we faced in conducting this analysis are prevalent in national research on student academic performance.

³ Eligibility for free or reduced-price lunch is a proxy for income level. To qualify for free school lunch, students must have family income less than or equal to 130 percent of the federal poverty income guidelines. To qualify for reduced-price lunch, students must have family income less than or equal to 185 percent of the federal poverty income guidelines.

The following sections present analysis of charter school academic performance bearing these challenges in mind. First, we discuss statewide performance in charter and district schools by comparing their respective AYP results and examining statewide charter and district school student performance on state standardized assessments. We then discuss the performance of charter and district schools within the same region and with similar student demographics. Subsequent sections examine other factors that may affect student performance, such as schools' student mobility rates, percentages of students with limited English proficiency, and percentages of special education students.

ACADEMIC PERFORMANCE

Charter schools in Minnesota are subject to the same state laws regarding education standards and academic performance as school districts.⁴ Specifically, charter schools must meet the state's requirements for student testing participation rates, graduation or attendance rates, and student proficiency on state standardized assessments in math and reading. Based on our assessment of AYP and MCA-II assessment data, we found that:

- **In 2007, students in Minnesota charter schools generally did not perform as well on standardized academic measures as students in Minnesota district schools; however, after accounting for certain demographic factors and student mobility, the differences in performance were minimal.**

The performance of charter schools is mixed.

In 2007, a smaller percentage of charter schools made AYP than district schools. Similarly, students in charter schools did not perform as well on state standardized assessments in math and reading as students in district schools. However, charter schools in some regions of the state performed better than district schools in the same region. For example, charter schools in Minneapolis and St. Paul made AYP at a higher rate than district schools in those cities.

In addition to controlling for regional differences, we controlled for certain student and school characteristics and then analyzed charter and district school performance. When comparing the MCA-II scores of charter schools with district schools that have similar characteristics (region, the percentages of minority students and students eligible for free or reduced-price lunch, and student mobility rates), the disparities between charter and district school performance diminished significantly.⁵

⁴ *Minnesota Statutes* 2007, 124D.10, subd. 10; 120B.02, subd. 2; 120B.021, subd. 1; and 120B.30, subds. 1 and 1a.

⁵ In this chapter, we discuss a *school's* performance on the MCA-II assessments. To measure the performance of a school (or group of schools), we first converted student test scores to a standard scale. This made the scores comparable across grade levels. We then averaged the student test scores to determine a composite math and reading score for each school or group of schools.

Statewide Results

As noted above, charter schools statewide did not perform as well as district schools on the state's academic measures. The following sections contain detailed discussions of charter and district school AYP results and performance on the MCA-II assessments.

Adequate Yearly Progress

Like district schools, charter schools must demonstrate Adequate Yearly Progress (AYP) and comply with federal requirements under the No Child Left Behind Act.

In order to make AYP and comply with NCLB, a Minnesota school must reach MDE-determined targets in testing participation rates and in math and reading proficiency rates. (Students are considered proficient if they meet or exceed expectations on the MCA-II math and reading assessments.) Proficiency targets increase every year until 2014, when 100 percent of students must attain proficiency for a school to make AYP. In addition to the academic requirements, every school must demonstrate adequate progress in graduation rates (for schools that serve students through grade 12) or attendance rates (for schools that do not serve graduating students).⁶

NCLB accountability models use disaggregated data. To make AYP, a school must reach participation and proficiency targets for its entire student population and eight student demographic subgroups.⁷ Each subgroup must have a minimum of 40 students to count toward participation rates and at least 20 students to be factored into proficiency calculations. All subgroups large enough to be measured must make AYP in both participation and proficiency in order for a school to make AYP in a given subject. If the entire student population or any subgroup that is large enough to be measured fails to make AYP in either subject (math or reading), or in the school's additional measure (graduation or attendance rates), the school as a whole will fail to make AYP. Schools that fail to make AYP in the same subject for two or more consecutive years are subject to federal consequences.⁸

Based on our analysis of charter and district school AYP rates, we found that:

⁶ Students are tested in math and reading starting in grade three. In 2007, 28 Minnesota schools served students only through grade two. Since students in these schools do not take the MCA-II assessments, AYP for these schools is based solely on attendance rates.

⁷ The NCLB student demographic subgroups are: American Indian, Asian/Pacific Islander, Hispanic, Black, White, limited English proficiency, special education, and free or reduced-price lunch.

⁸ Federally-mandated consequences for failure to make AYP only apply to those schools that receive federal Title I funding. Title I grants are intended to help schools improve educational opportunities for low-income children. About half of the schools in Minnesota received Title I funding in 2007, with a higher percentage of Minnesota charter schools receiving this funding than district schools. Schools receiving Title I funding that fail to make AYP in the same subject for two or more consecutive years must dedicate some of their federal funds to implementing school improvements required by NCLB. While the federal consequences only apply to Title I schools, MDE calculates and reports AYP results for all Minnesota schools.

- **In 2007, a smaller percentage of charter schools made AYP than district schools. However, in Minneapolis and St. Paul, charter schools made AYP at a higher rate than district schools.**

As shown in Table 2.1, more than two-thirds of Minnesota’s district schools made AYP in 2007; only half of the charter schools we analyzed made AYP that year.⁹ Statewide, 66 percent of all public schools (both district and charter schools) made AYP in 2007.

Table 2.1: Schools Making AYP by School Type, 2007

Only half of Minnesota charter schools made AYP in 2007.

	Number Making AYP	Percentage Making AYP	Total Number of Schools
Charter Schools	73	50%	145 ^a
District Schools	1,000	68	1,471
All Public Schools	1,073	66%	1,616

NOTE: Schools that made Adequate Yearly Progress (AYP) met Minnesota Department of Education-determined targets in all categories (reading and math participation and proficiency, as well as graduation or attendance rates) for all demographic subgroups.

^a Although a total of 131 charter schools were operating in the 2006-07 school year, some of these schools had multiple sites (such as an elementary school and a middle school). Analysis in this table is based on 145 charter school sites.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education AYP data.

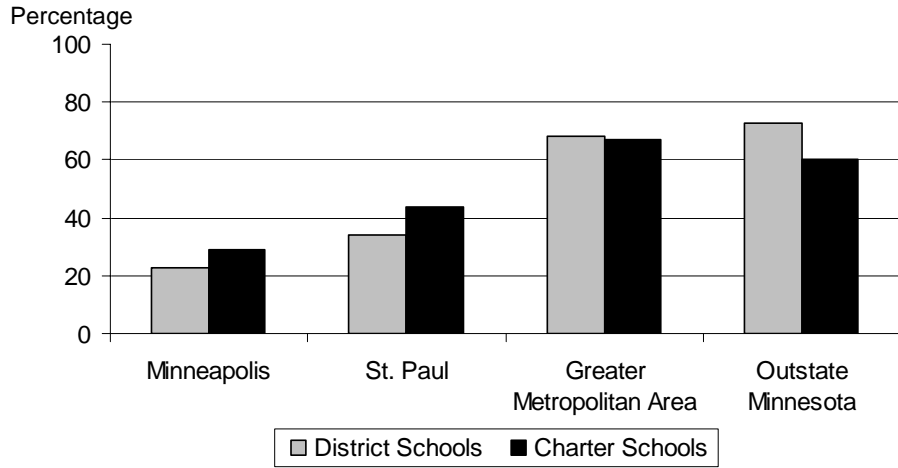
While charter schools did not make AYP at the same rate as district schools statewide in 2007, results varied by region. We examined charter and district school AYP results within four geographic regions: Minneapolis, St. Paul, the Greater Metropolitan area, and Outstate Minnesota.¹⁰ As illustrated in Figure 2.1, a greater percentage of public schools (both district and charter) in the Greater Metropolitan area and Outstate Minnesota made AYP in 2007 than schools in the Twin Cities. However, in Minneapolis and St. Paul, a larger percentage of charter schools made AYP than district schools. In the Greater Metropolitan area and Outstate Minnesota, a larger percentage of district schools made AYP than charter schools, though the difference was small in the Greater Metropolitan area. The difference was largest in Outstate Minnesota, where 73

⁹ Although a total of 131 charter schools were operating in the 2006-07 school year, some of them had multiple sites (such as an elementary school and a middle school). Our data analysis in this chapter is based on the total number of charter school *sites* (153). Thus, the number of charter schools included in the analysis in Chapter 2 is higher than the total number of charter schools reported in Chapters 1 and 3. In our analysis of AYP data, we did not include charter or district schools that focused on unique learning programs (such as alternative learning programs), as students in these schools may face extenuating circumstances that affect performance. Excluding these schools brought the total number of school sites to 145.

¹⁰ In this report, the “Greater Metropolitan area” refers to the seven-county metropolitan region (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties) excluding Minneapolis and St. Paul. “Outstate Minnesota” refers to the parts of the state outside of the seven-county metropolitan area.

Charter schools in Minneapolis and St. Paul were more likely to make AYP than district schools in those cities.

Figure 2.1: Percentage of Schools Making AYP by Region and School Type, 2007



NOTES: Schools that made Adequate Yearly Progress (AYP) met Minnesota Department of Education targets in all categories (reading and math participation and proficiency, as well as attendance or graduation rates) for all demographic subgroups. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region).

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education AYP data.

percent of district schools made AYP compared with 60 percent of charter schools.

State Standardized Assessments (MCA-II)

By law, students in Minnesota must take the MCA-II math assessment in grades 3 through 8 and 11, and the MCA-II reading assessment in grades 3 through 8 and 10.¹¹ These assessments help schools measure student progress toward Minnesota's academic standards and the requirements of NCLB and, as discussed previously, are used to determine whether schools make AYP.

To evaluate student performance on the MCA-II assessments in Minnesota's charter and district schools, we compared the average scores of all charter and district school students statewide in math and reading. Students take different assessments at each grade level, and actual average scores differ among grades. In order to combine assessment results for different grade levels, we converted all scores to a scale with a statewide mean of 50 and a standard deviation of 15 for both math and reading.¹² For both math and reading, students in the 75th

¹¹ *Minnesota Statutes* 2007, 120B.02; and 120B.30, subd. 1.

¹² The standard deviation is a statistical measure of variation in scores; typically in a "normal" distribution, about two-thirds of the scores are within one standard deviation of the mean.

percentile scored 10 or more points above the mean and students in the 95th percentile scored 23 points or more above the mean. The highest score in the state was 100 for math and 97 for reading. As with the AYP data, we analyzed student performance at the statewide level and within the geographic regions of Minneapolis, St. Paul, the Greater Metropolitan area, and Outstate Minnesota.

Based on our analysis of the statewide MCA-II data, we found that:

- **Statewide, charter school students generally did not perform as well on Minnesota’s 2007 standardized assessments as students in district schools. However, results varied by geographic region.**

Overall, students from charter schools statewide did not perform as well on the MCA-II assessments as students who attended district schools, although in some cases, these differences were fairly small. Charter school students on average scored more than six fewer points on the 2007 MCA-II math and reading exams than district school students. While six points is not a very large difference for any two students, we consider the difference to be moderately large for comparisons among schools. However, the disparities among charter and district schools varied across geographic regions. On average, students in St. Paul charter schools scored about the same as students in St. Paul district schools on both the math and reading MCA-II assessments. Minneapolis charter school students fared the worst, scoring six fewer points on average than Minneapolis district school students on both the math and reading assessments.¹³ In both the Greater Metropolitan area and Outstate Minnesota, charter school students scored five fewer points on average than district school students in math and about three fewer points in reading.

Comparable District Schools

Research suggests demographic factors are related to student performance.

In addition to comparing all charter and district schools statewide and within a given region, we compared smaller groups of charter and district schools that shared similar demographic characteristics. The sections that follow describe our methodology for grouping charter schools with comparable district schools and the results of our comparisons.

Methodology

National research suggests that certain demographic factors, including student socioeconomic and minority status, are related to student performance on standardized assessments. Specifically, research shows that minority students and students from low-income families (as indicated by a student’s eligibility for free or reduced-price lunch) generally perform worse on standardized assessments nationwide. For example, a 2005 study by the National Assessment of Educational Progress (NAEP) found that in reading, fourth- and eighth-grade

¹³ As stated in Chapter 1, nearly half of all Minnesota charter schools are located in Minneapolis and St. Paul. As such, charter schools in these regions may drive the results for charter schools statewide.

students who were eligible to receive free or reduced-price lunch were more than two grade levels behind their peers who were not eligible for free or reduced-price lunch programs.¹⁴ Similarly, 2007 NAEP data indicated that eighth-grade African-American and Latino students were about three grade levels behind white students in math.¹⁵

As discussed in Chapter 1, charter schools in Minnesota serve significantly higher percentages of minority students and students eligible to receive free or reduced-price lunch than district schools. To account for the potential affects of these demographic differences on charter and district school MCA-II scores, we compared charter school students' performance with that of students in district schools with similar demographics. We analyzed the data by grouping charter schools with district schools located in the same geographic region (Minneapolis, St. Paul, the Greater Metropolitan area, and Outstate Minnesota) that served comparable percentages of minority students and students who qualified for free or reduced-price lunch.

We grouped charter and district schools in the same region with similar percentages of minority students and students eligible for free or reduced-price lunch.

Specifically, we used 2007 demographic data to match each charter school with district schools in the same region whose percentages of minority students and students who qualified for free or reduced-price lunch were within 10 percentage points of the charter school's student populations in those subgroups. For example, the Academy for Science and Agriculture in Vadnais Heights is located in the Greater Metropolitan area and had a 2007 student population composed of about 25 percent minority students and about 15 percent students who were eligible for free or reduced-price lunch. As such, this charter school was grouped with district schools in the Greater Metropolitan area that served between 15 and 35 percent minority students and 5 and 25 percent students eligible for free or reduced-price lunch. Within these groupings, we compared the average math and reading MCA-II scores of the charter school students with the average scores of students in the comparable district schools.¹⁶ The appendix at the end of this report contains a more detailed discussion of our methodology for comparing charter and comparable district school MCA-II scores.

Based on our grouping methodology, we were able to compare the performance of students from 119 charter schools to the performance of students from district schools with similar demographics.¹⁷ We were unable to match 34 (of the 153)

¹⁴ National Assessment of Educational Progress (NAEP), "Utah NAEP 2005 Trends: Further Achievement Gap Analyses of Key Subgroups in Reading, Math & Science," http://www.schools.utah.gov/assessment/DOCUMENTS/NAEP_Gap_Analysis_Grade_4_8_SMR_2005.pdf, accessed May 8, 2008.

¹⁵ National Assessment of Educational Progress (NAEP), "Closing the Achievement Gap?", <http://web.ebscohost.com/ehost/pdf?vid=2&hid=2&sid=a5cbc91a-f1d8-4453-a218-108a007582eb%40SRCSM2>, accessed May 8, 2008.

¹⁶ The groups that resulted from this matching contained as few as 1 district comparison school and as many as 126. A given district school could be matched with multiple charter schools as long as it met the regional and demographic requirements.

¹⁷ One charter school did not take the math assessment because it serves grades that are not assessed in math (ninth and tenth grades); thus, the total number of grouped charter schools that took the math assessments is 118 and the total number that took the reading assessments is 119.

charter school sites with any district schools due to unique student and school characteristics.¹⁸ For example, some charter schools in Minneapolis and St. Paul had relatively low percentages of minority students or students who qualified for free or reduced-price lunch. Because the demographics of these charter schools differed markedly from those of the cities' district schools, we were unable to identify comparable district schools. We omitted these charter schools (25 charter schools in total) from our analysis. In addition, some charter schools focus exclusively on unique learning programs, such as online learning programs, alternative learning programs, or programs for special education students. We also omitted these charter schools (nine charter schools in total) from our analysis. See Table B.1 in the appendix for a list of charter schools omitted from our analysis.

Comparison of Schools with Similar Demographics

Based on our analysis of the MCA-II scores of charter schools and their comparison district schools, we found that:

- **Even when more narrowly compared to district schools in the same region with similar demographics, charter schools generally did not perform as well on standardized assessments as comparable district schools.**

Only about 15 percent of charter schools performed better on the 2007 MCA-II math and reading assessments than district schools in the same region with similar student demographics.

As shown in Table 2.2, in total, only about 15 percent of charter schools performed better on the 2007 MCA-II math and reading assessments than district schools in the same region with similar student demographics. About half (51 percent) of charter schools performed worse than their comparison groups of district schools on the math assessment, and 38 percent of charter schools performed worse on the reading assessment. In many cases, however, there was no significant difference between the scores of charter schools and their district comparison schools (34 percent of the comparisons in math and 48 percent in reading did not yield statistically significant differences).¹⁹

Minneapolis and St. Paul charter schools were more likely to outperform comparable district schools than charter schools in the Greater Metropolitan or Outstate regions of the state.²⁰ Specifically, as shown in Table 2.2, 26 percent of Minneapolis charter schools and 25 percent of St. Paul charter schools performed

¹⁸ The unmatched schools represent 22 percent of charter school sites and 18 percent of charter school students.

¹⁹ Significance was determined at the 95-percent confidence level. Lack of statistical significance resulted from small differences in test scores (68 percent of the reading score comparisons and 73 percent of the math score comparisons that had no significant difference) or too few charter school students taking a particular assessment (32 percent of the reading comparisons and 27 percent of the math comparisons with no significant difference).

²⁰ These results differ from our statewide analysis of MCA-II scores for charter and district schools that were not grouped based on demographic characteristics. Our previous analysis included *all* charter and district schools in Minnesota; the analysis presented here includes only those charter and district schools that could be matched.

Table 2.2: Comparable Charter and District School Student Performance, 2007 MCA-II Assessments, by Region

	Number and Percentage of Charter Schools in:									
	Minneapolis		St. Paul		Greater Metropolitan Area		Outstate Minnesota		Total	
MCA-II Math Assessments										
<i>Unmatched</i>	11	--	7	--	7	--	9	--	34	--
Charter School Performed Better	8	26%	5	25%	2	7%	3	8%	18	15%
No Significant Difference	17	55	5	25	5	19	13	33	40	34
Charter School Performed Worse	<u>6</u>	<u>19</u>	<u>10</u>	<u>50</u>	<u>20</u>	<u>74</u>	<u>24</u>	<u>60</u>	<u>60</u>	<u>51</u>
Total ^a	31	100%	20	100%	27	100%	40	100%	118	100%
MCA-II Reading Assessments										
<i>Unmatched</i>	11	--	8	--	6	--	9	--	34	--
Charter School Performed Better	6	19%	4	20%	4	14%	3	8%	17	14%
No Significant Difference	16	52	8	40	11	39	22	55	57	48
Charter School Performed Worse	<u>9</u>	<u>29</u>	<u>8</u>	<u>40</u>	<u>13</u>	<u>46</u>	<u>15</u>	<u>38</u>	<u>45</u>	<u>38</u>
Total ^a	31	100%	20	100%	28	100%	40	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

better than comparable district schools on the MCA-II math assessments. In contrast, fewer than 10 percent of charter schools in the Greater Metropolitan area or Outstate Minnesota performed better than their comparable district schools on these assessments.

The regional differences in the charter and district comparisons for reading were not as large as those for math. Eight percent of the charter schools in Outstate Minnesota and 14 percent of the charter schools in the Greater Metropolitan area performed better on the MCA-II reading assessments than district schools with similar demographics. Minneapolis and St. Paul charter schools fared slightly better, with 19 and 20 percent of charter schools in each region, respectively, outperforming their comparable district schools on the reading assessments.

Within our charter and district school groupings, performance on the MCA-II assessments also varied by the percentage of minority students and students eligible to receive free or reduced-price lunch in the charter school. To examine this issue, we analyzed MCA-II scores of charter schools and their comparable district schools based on the charter school's demographics. We found that:

- **Charter schools with large percentages of minority students or students eligible to receive free or reduced-price lunch were more likely than other charter schools to perform better than their comparable district schools.**

As shown in Table 2.3, 30 percent of the charter schools with very high percentages (between 75 and 100 percent) of students eligible to receive free or reduced-price lunch performed better on the MCA-II math assessments than district schools located in the same region with similar student demographics.

Table 2.3: Comparable Charter and District School Student Performance, 2007 MCA-II Assessments, by Percentage of Students Eligible for Free or Reduced-Price Lunch (FRL)

	Number and Percentage of Charter Schools with:									
	0 to less than 25 percent FRL		25 to less than 50 percent FRL		50 to less than 75 percent FRL		75 to 100 percent FRL		Total	
MCA-II Math Assessments										
<i>Unmatched</i>	14	--	6	--	6	--	8	--	34	--
Charter School Performed Better	3	9%	1	5%	0	0%	14	30%	18	15%
No Significant Difference	5	15	7	35	8	47	20	43	40	34
Charter School Performed Worse	<u>26</u>	<u>76</u>	<u>12</u>	<u>60</u>	<u>9</u>	<u>53</u>	<u>13</u>	<u>28</u>	<u>60</u>	<u>51</u>
Total ^a	34	100%	20	100%	17	100%	47	100%	118	100%
MCA-II Reading Assessments										
<i>Unmatched</i>	14	--	6	--	6	--	8	--	34	--
Charter School Performed Better	5	14%	0	0%	1	6%	11	23%	17	14%
No Significant Difference	14	40	11	55	9	53	23	49	57	48
Charter School Performed Worse	<u>16</u>	<u>46</u>	<u>9</u>	<u>45</u>	<u>7</u>	<u>41</u>	<u>13</u>	<u>28</u>	<u>45</u>	<u>38</u>
Total ^a	35	100%	20	100%	17	100%	47	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

This is in contrast to charter schools with lower percentages (less than 25 percent) of students who qualify for free or reduced-price lunch, where only three charter schools (9 percent) performed better than comparable district schools on the MCA-II math assessments. Of the charter schools with less than 25 percent of students eligible to receive free or reduced-price lunch, the vast majority (76 percent) performed worse on the math assessments than district schools located in the same region and with similar student demographics. Table B.2 in the appendix presents these data in a different format (with percentages based on

charter school performance rather than on percentages of students eligible for free or reduced-price lunch).

Results for charter schools with varying percentages of minority students are similar to those presented above for charter schools with varying percentages of students eligible to receive free or reduced-price lunch, as seen in Appendix tables B.3 and B.4. Table B.3 shows that 33 percent of charter schools with high percentages of minority students (75 to 100 percent minority) performed better on the MCA-II math assessments than district schools in the same region and with similar student demographics; only 7 percent of charter schools with lower percentages (less than 25 percent) of minority students performed better than comparable district schools on this assessment.²¹

OTHER FACTORS

Student mobility and other student characteristics may be related to charter school performance.

In addition to the concentration of minority students and students who are eligible to receive free or reduced-price lunch, factors such as student mobility—a measure of how much turnover there is among a school’s student body during a given school year—and the percentages of students with limited English proficiency (LEP) or special education students may be related to charter school performance. Charter schools face much higher rates of student mobility than district schools. Moreover, as discussed in Chapter 1, charter schools serve somewhat different student populations than district schools, including higher percentages of students with LEP.

Our previous analysis controlled for region and the percentages of minority students and students who receive free or reduced-price lunch. In this section we also evaluate the impact of these other factors.²² First, we examine student mobility data for charter and district schools and evaluate the extent to which it may be related to student performance. We then analyze the extent to which additional factors, such as the percentages of LEP or special education students in charter and district schools, have an impact on student performance.

Student Mobility

MDE calculates a school’s student mobility index each school year by dividing the total number of transfers throughout the year (students who move into or out of a school after Labor Day) by the school’s student enrollment count on October 1 of that school year. Student transfers are counted over the entire year;

²¹ While charter schools in Minneapolis and St. Paul may have largely driven the finding that charter schools with high percentages of minority students or students eligible for free or reduced-price lunch performed better than comparable district schools, they do not fully explain these results. Some charter schools in other regions of the state with high percentages of these students also outperformed comparable district schools.

²² We examined charter and district schools’ assessment results with respect to other factors as well, such as the type of organization that sponsors charter schools and the number of years the charter school had been in operation. However, these other factors did not appear to be related to student performance.

enrollment numbers are a snapshot of a single day. As such, a school could have a mobility rate of 100 percent or higher if the number of students who entered or left the school at any point during the year exceeded the number of students who were enrolled on October 1.²³ For example, Lighthouse Academy of Nations in Minneapolis had 119 students enrolled as of October 1, 2006 for the 2006-07 school year, and 149 transfers (into and out of the school) throughout the year; its mobility rate was 125 percent.

Several national studies have linked high rates of student mobility with poor academic outcomes.²⁴ We found that:

- **Some charter schools have extremely high rates of student mobility, which may impact student performance.**

Almost 15 percent of charter schools had 100 percent mobility or greater in 2007.

In 2007, Minnesota charter schools had significantly higher student mobility rates than district schools. Specifically, nearly 15 percent of charter schools, but less than 1 percent of district schools, had 100 percent mobility or greater in 2007. In general, the majority (78 percent) of schools with high mobility rates were charter schools. The vast majority (90 percent) of district schools had mobility rates of 25 percent or less. Mobility rates also varied by region, as seen in Table 2.4. In Minneapolis, 23 percent of charter schools, versus 2 percent of district schools, had mobility rates of 100 percent or greater. A significant portion of charter schools (15 percent) in the Greater Metropolitan area also had mobility rates of 100 percent or more.

We analyzed the relative academic performance of charter schools with mobility rates higher than, similar to, and lower than district schools with similar student demographics. In this analysis, we also controlled for charter schools' regions, percentages of minority students, and percentages of students eligible for free or reduced-price lunch by comparing each charter school's mobility rate to the average mobility rate of its established comparison group. A charter school's mobility rate was considered higher if it exceeded its comparison district schools' rate by at least 10 percentage points; it was considered similar if the district schools' mobility rate was within 10 percentage points of the charter school's mobility rate; and it was considered lower if the charter school's mobility rate was at least 10 percentage points lower than its comparison district schools.

As shown in Table 2.5, almost half (55 out of 116) of the charter schools we analyzed had similar mobility rates to those of district schools with comparable

²³ Having a mobility rate of 100 percent or more does not necessarily mean that all students who enrolled in a school on October 1 are no longer enrolled in the school at the end of the school year. Schools with high mobility rates (50 percent or greater) were more likely to maintain or increase their student enrollment than to experience net outflows of students.

²⁴ See, for example, Rhodes, Virginia, "Kids on the Move: The Effects of Student Mobility on NCLB School Accountability Ratings," <http://www.urbanedjournal.org/articles/article0020.html>, accessed May 14, 2008; and Finch, Holmes, David Lapsley, and Mary Baker-Boudissa "Predictors of Student Mobility and Retention in Charter Schools: 2003-2006," http://www.nd.edu/~dlapsle2/Conference%20Papers/Finch,_Lapsley,_Baker-Boudissa_aera_2008v2Formatted.pdf, accessed May 14, 2008.

Table 2.4: Charter and District School Student Mobility Rates by Region, 2007

Mobility Rate (Percentage) (Number of Schools)	Percentage of Schools									
	Minneapolis		St. Paul		Greater Metropolitan Area		Outstate Minnesota		Total	
	Charter Schools	District Schools	Charter Schools	District Schools	Charter Schools	District Schools	Charter Schools	District Schools	Charter Schools	District Schools
	(39)	(66)	(26)	(65)	(34)	(431)	(45)	(907)	(144)	(1469)
Less than 10	8%	8%	12%	20%	26%	52%	18%	57%	16%	51%
10 to less than 25	26	32	46	43	26	42	40	40	34	40
25 to less than 50	21	47	23	37	18	6	22	3	21	7
50 to less than 100	23	12	12	0	15	0	13	<1	16	1
100 or greater	<u>23</u>	<u>2</u>	<u>8</u>	<u>0</u>	<u>15</u>	<u><1</u>	<u>7</u>	<u>0</u>	<u>13</u>	<u><1</u>
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NOTES: Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). One charter school did not report mobility data. Percentages may not sum to 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education student mobility data.

After accounting for mobility—in addition to region, percentage of minority students, and percentage of students who qualify for free or reduced-price lunch—the differences in charter and district school performance diminished.

demographics.²⁵ Among charter schools with higher mobility rates than district schools (47 charter schools), the majority were more likely to under-perform than outperform district schools in their comparison groups. More specifically, 74 percent of charter schools with higher mobility rates performed worse on the MCA-II math assessment than their comparable district schools; 56 percent performed worse on the MCA-II reading assessment. In contrast, charter schools with lower mobility rates than their comparable district schools were more likely to perform better than their district counterparts (50 percent performed better on the MCA-II math assessment and 38 percent performed better on the MCA-II reading assessment than their comparable district schools).

Although charter school students generally did not perform as well as district school students on the 2007 MCA-II tests, the differences diminished significantly after accounting for differences in demographics and mobility rates. As we discussed earlier, the 2007 statewide average score for charter school students was more than six points below the average score for district school students for both math and reading, a difference we considered to be moderately large. When we account for region, percentage of minority students, and

²⁵ One charter school did not take the math assessment because it serves grades that are not assessed in math (ninth and tenth grades). As such, the total number of schools that took the math assessments is 115, while the total number that took the reading assessments is 116. Student mobility data was missing for three comparison groups.

Table 2.5: Comparable Charter and District School Performance, 2007 MCA-II Assessments, by Mobility Rates

	Number and Percentage of Charter Schools where:							Total
	Charter School Had Higher Mobility Rate (by At Least 10 Percentage Points)		Charter and District Schools Had Similar Mobility Rates		Charter School Had Lower Mobility Rate (by At Least 10 Percentage Points)			
MCA-II Math Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	1	2%	8	15%	7	50%	16	14%
No Significant Difference	11	23	24	44	5	36	40	35
Charter School Performed Worse	<u>35</u>	<u>74</u>	<u>22</u>	<u>41</u>	<u>2</u>	<u>14</u>	<u>59</u>	<u>51</u>
Total ^a	47	100%	54	100%	14	100%	115	100%
MCA-II Reading Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	3	6%	7	13%	5	38%	15	13%
No Significant Difference	18	38	34	62	4	31	56	48
Charter School Performed Worse	<u>27</u>	<u>56</u>	<u>14</u>	<u>25</u>	<u>4</u>	<u>31</u>	<u>45</u>	<u>39</u>
Total ^a	48	100%	55	100%	13	100%	116	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic, mobility, and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

percentage of students eligible for free or reduced-price lunch, the differences between charter and district school performance on the MCA-II tests dropped to three points for math and one point for reading. After also accounting for mobility, the differences further declined to two points for math and one-half point for reading. In each case, charter school students still had lower scores, but the differences diminished after accounting for the demographic factors and student mobility.

Limited English Proficiency

As discussed in Chapter 1 (see Figure 1.2), in 2007 charter schools had triple the percentage of LEP students than district schools (21 percent of charter school students were designated as LEP, compared with 7 percent of district school students statewide). We analyzed the relative academic performances of charter schools with percentages of LEP students that were higher than, similar to, and

lower than their comparison district schools.²⁶ Similar to the mobility analysis discussed above, a charter school's percentage of LEP students was considered higher if it exceeded the percentage of its comparison district schools' by at least 10 percentage points; it was considered similar if the district schools' average LEP enrollment was within 10 percentage points of the charter school's LEP enrollment; and it was considered lower if the charter school's percentage of LEP students was at least 10 percentage points lower than its comparison district schools.

As shown in Table 2.6, the majority of charter schools that we analyzed had similar percentages of students with LEP as their comparable district schools

Table 2.6: Comparable Charter and District School Performance, 2007 MCA-II Assessments, by Percentage of Students with Limited English Proficiency (LEP)

	Number and Percentage of Charter Schools where:							
	Charter School Had Higher Percentage of Students with LEP (by At Least 10 Percentage Points)		Charter and District Schools Had Similar Percentages of Students with LEP		Charter School Had Lower Percentage of Students with LEP (by At Least 10 Percentage Points)		Total	
MCA-II Math Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	11	58%	2	3%	5	17%	18	15%
No Significant Difference	4	21	22	32	14	47	40	34
Charter School Performed Worse	<u>4</u>	<u>21</u>	<u>45</u>	<u>65</u>	<u>11</u>	<u>37</u>	<u>60</u>	<u>51</u>
Total ^a	19	100%	69	100%	30	100%	118	100%
MCA-II Reading Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	3	19%	3	4%	11	33%	17	14%
No Significant Difference	3	19	39	56	15	45	57	48
Charter School Performed Worse	<u>10</u>	<u>63</u>	<u>28</u>	<u>40</u>	<u>7</u>	<u>21</u>	<u>45</u>	<u>38</u>
Total ^a	16	100%	70	100%	33	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

²⁶ Again, in this analysis, as with the mobility analysis presented above, we also controlled for charter schools' regions, percentages of minority students, and percentages of students eligible for free or reduced-price lunch.

(about 70 out of 119).²⁷ Among these schools, 65 percent of charter schools performed worse on the MCA-II math assessment than district schools in the same region with similar student demographics. When charter and district schools had different percentages of students with LEP, the schools with higher percentages of LEP students tended to do better on the math assessments than the reading assessments. For example, among the charter schools with higher percentages of students with LEP than district schools, 58 percent performed better than their comparable district schools on the math assessments and 63 percent performed worse on the reading assessments.

Special Education Students

Most charter schools had similar percentages of special education students as their comparable district schools.

Similar to the mobility and LEP analysis discussed above, we analyzed the extent to which charter schools with higher, similar, and lower percentages of special education students than their comparable district schools performed better or worse than those schools on the MCA-II assessments.²⁸ As shown in Table 2.7, the majority of charter schools (83 out of 119) had similar percentages of special education students as their comparable district schools.²⁹ In general, a school's percentage of special education students seemed to have a greater impact on academic performance than the percentage of students with LEP. Specifically, more than three-fourths of the charter schools with higher percentages of special education students than their comparable district schools performed worse than those schools on the math and reading assessments. Of the 15 charter schools with lower percentages of special education students than their comparable districts schools, more outperformed their comparable district schools in math (47 percent) than in reading (20 percent).

OTHER MEASURES OF CHARTER SCHOOL ACHIEVEMENT

Staff from several charter schools we visited expressed concern that the MCA-II assessments do not reflect the achievements or growth of their students or schools. Based on our discussions with charter school staff, we found that:

²⁷ One charter school did not take the math assessment because it serves grades that are not assessed in math (ninth and tenth grades). As such, the total number of schools that took the math assessments is 118, while the total number that took the reading assessments is 119.

²⁸ As with the LEP and mobility analyses discussed above, a charter school's percentage of special education students was considered higher if it exceeded the percentage of its comparison district schools by at least 10 percentage points; it was considered similar if the district schools' percentage of special education students was within 10 percentage points of the charter schools' special education enrollment; and it was considered lower if the charter school's percentage of special education students was at least 10 percentage points lower than its comparison district schools. Again, in this analysis as with the mobility and LEP analyses presented above, we also controlled for charter schools' regions, percentages of minority students, and percentages of students eligible for free or reduced-price lunch.

²⁹ One charter school did not take the math assessment because it serves grades that are not assessed in math (ninth and tenth grades). As such, the total number of schools that took the math assessments is 118, while the total number that took the reading assessments is 119.

Table 2.7: Comparable Charter and District School Performance, 2007 MCA-II Assessments, by Percentage of Special Education Students

	Number and Percentage of Charter Schools where:							
	Charter School Had Higher Percentage of Special Education Students (by At Least 10 Percentage Points)		Charter and District Schools Had Similar Percentages of Special Education Students		Charter School Had Lower Percentage of Special Education Students (by At Least 10 Percentage Points)		Total	
MCA-II Math Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	2	10%	9	11%	7	47%	18	15%
No Significant Difference	1	5	34	41	5	33	40	34
Charter School Performed Worse	<u>17</u>	<u>85</u>	<u>40</u>	<u>48</u>	<u>3</u>	<u>20</u>	<u>60</u>	<u>51</u>
Total ^a	20	100%	83	100%	15	100%	118	100%
MCA-II Reading Assessments								
<i>Unmatched</i>	--	--	--	--	--	--	34	--
Charter School Performed Better	4	19%	10	12%	3	20%	17	14%
No Significant Difference	1	5	50	60	6	40	57	48
Charter School Performed Worse	<u>16</u>	<u>76</u>	<u>23</u>	<u>28</u>	<u>6</u>	<u>40</u>	<u>45</u>	<u>38</u>
Total ^a	21	100%	83	100%	15	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

- **Student performance on standardized assessments, such as the MCA-II assessments, may not fully reflect student or school achievement.**

For example, staff from one charter school felt that the progress of their limited English proficiency students, who comprise about one-third of the student body, was not adequately represented by their scores on the MCA-II exams. At another school, staff said that the MCA-II exams do not accurately measure the growth of students who enter the school behind grade level.

In addition to the state's standardized assessments, some charter schools administer alternative assessments to measure student progress—sometimes referred to as “growth” or “progress” measures. However, these assessments are not required by Minnesota state law. As stated earlier, standardized assessments like the MCA-II exams measure student performance at a particular point in time against the state's standards for each grade level tested. In contrast, progress tests may be administered several times throughout the school year to measure

Student growth or progress tests may better reflect the relative impact and success of a school.

growth and are not specific to the student's grade level. For instance, the Northwest Evaluation Association's Measure of Academic Progress (MAP) is a grade-independent assessment, which some schools administer in the fall to measure students' current level of learning and again in the spring to measure student growth. Each MAP test is "adaptive," meaning it responds to student answers by custom-selecting future questions to provide an accurate measure of academic progress. Schools can use the results from assessments such as the MAP to measure student progress and to tailor learning programs to individual student needs throughout the school year.

Growth or progress tests may better reflect the relative impact and success of a school. For instance, at one of the schools we visited, three-fourths of students enter with academic skills below their grade level. At this school, only one-third of students tested at or above grade level on the MCA-II math assessments in 2007; on alternative assessments, nearly 70 percent of students demonstrated one year of growth in math during the same school year.

Staff from some charter schools we visited also noted that their schools' success is not limited to academic achievement. For example, staff from one charter school commented that, in addition to educating students, they help homeless students find places to sleep, provide students with two or three meals a day, help students find clothes and coats, and help meet students' other basic needs. Staff from this school were frustrated that the state only measures student success in one way—by how the students perform on the MCA-II assessments.

In addition, staff from some charter schools we visited discussed the importance of embedding students' culture into the school environment. For instance, students at one charter school located on a Native American reservation learn the Ojibwe language and participate in traditional ceremonies throughout the school year. Staff at other charter schools noted that incorporating culture into the curriculum helped students of recently-immigrated families better adjust to America and perform better in school.

FINANCIAL PERFORMANCE

In addition to meeting academic standards, charter schools must demonstrate satisfactory financial performance. Historically, charter schools have had financial problems. OLA's 2003 evaluation, *Charter School Financial Accountability*, found that "about one-fourth of the charter schools open in fiscal year 2002 had financial problems, as indicated by a negative fund balance or deficit spending combined with a low fund balance."³⁰ Additionally, the 2003 report found that poor financial management was a contributing factor in the closure of 15 of the 16 charter schools that had closed at that time.

³⁰ Minnesota Office of the Legislative Auditor, *Charter School Financial Accountability* (St. Paul, 2003), ix. Fiscal years begin July 1 and go through June 30 of the following year. For example, fiscal year 2002 began on July 1, 2001, and ended June 30, 2002; fiscal year 2002 corresponds with the 2001-02 school year.

Based on our analysis of MDE financial data since 2003, we found that:

- **In general, charter schools' financial health is comparable to the financial health of independent school districts.**

Table 2.8 lists the number of charter schools and school districts that were in statutory operating debt or had negative fund balances between fiscal years 2003 and 2007.³¹ With the exception of 2004, 3 to 5 percent of charter schools were in statutory operating debt during this five-year period. (In 2004, more than 6 percent of charter schools were in statutory operating debt.) This compares with about 5 percent of school districts in statutory operating debt during the same time period. (The exception is 2003, when 7 percent of school districts were in statutory operating debt.)

Table 2.8: Charter Schools and School Districts in Statutory Operating Debt or with Negative Fund Balances, Fiscal Years 2003 to 2007

	In Statutory Operating Debt				With Negative Fund Balances			
	Charter Schools		School Districts		Charter Schools		School Districts	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
2003	3	3.4%	24	7.0%	6	6.7%	34	9.9%
2004	7	6.4	18	5.3	21	19.1	32	9.3
2005	5	3.8	19	5.5	15	11.3	31	9.0
2006	6	4.4	16	4.7	9	6.6	30	8.8
2007	7	4.8	18	5.3	13	8.8	32	9.4
Average	5.6	4.6%	19.0	5.6%	12.8	10.5%	31.8	9.3%

NOTES: A charter school or school district is in statutory operating debt when their unreserved general fund balance is less than negative 2.5 percent of its general fund expenditures. See [Minnesota Statutes](#) 2007, 123B.81, subd. 2, for more information. Fiscal years begin July 1 and go through June 30 of the following year.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education financial data.

On average, more than 9 percent of school districts had a negative fund balance between 2003 and 2007, as shown in Table 2.8.³² During this same time period, an average of almost 11 percent of charter schools had a negative fund balance, although this percentage varied greatly by year (from less than 7 percent of charter schools in 2003 and 2006 to almost 20 percent in 2004). While these schools and districts did not necessarily have large enough deficits to be in statutory operating debt, we think the presence of a negative fund balance indicates schools and districts in financial distress.

³¹ A charter school or school district is in statutory operating debt when its unreserved general fund balance is less than negative 2.5 percent of its general fund expenditures. See [Minnesota Statutes](#) 2007, 123B.81, subd. 2, for more information.

³² These numbers include those schools and districts in statutory operating debt as well as those that had a smaller negative fund balance.

We also evaluated the extent to which the same charter schools were in statutory operating debt or had a negative fund balance from year to year. Between fiscal years 2003 and 2007, 40 different charter schools were in statutory operating debt or had a negative fund balance at some point during the period. Most (24 of the 40) of these charter schools were able to improve their financial health during this time period and ended the five-year period with a positive fund balance. Of the remaining 16 schools, 13 ended the five-year period with a negative fund balance and 3 schools closed. Only one charter school, New Visions Charter School, had a negative fund balance in all five years.

In 2003, MDE began presenting a “School Finance Award” to school districts and charter schools based on their compliance with state requirements and demonstration of fiscal health. The number of charter schools receiving the School Finance Award has risen from 0 of the 11 winners in 2003, to 43 of the 96 winners in 2008.

DISCUSSION

Charter schools generally have not performed as well as district schools across academic measures. However, when we controlled for region, percentages of minority students and students who qualify for free or reduced-price lunch, and mobility rates, the differences in performance levels between charter and district schools diminished significantly. In this chapter, we have presented our analysis of charter school performance, but numerous arguments can be made about the reasons why charter schools perform better or worse than district schools.

On one hand, charter schools may serve more challenging populations. For example, charter schools in Minneapolis (where nearly one-fourth of charter schools are located) serve larger percentages of minority students and students eligible for free or reduced-price lunch than district schools in Minneapolis. National research has shown that minority students and students who qualify for free or reduced-price lunch typically do not perform as well on standardized assessments as their peers. Moreover, as discussed in this chapter, charter schools experience much higher student mobility rates than district schools; as previously noted, several national studies have linked high rates of student mobility with poor academic outcomes. Additionally, it is possible that charter schools serve more students who transferred from district schools where they did not thrive academically. If this is the case, the transfer of these students from district schools to charter schools could simultaneously increase the performance of district schools and decrease the performance of charter schools.

On the other hand, charter school students and their families have chosen to attend charter schools, possibly indicating a high level of involvement in these students’ educational experience. Research published by the National Education

Association and others has shown that increased parent involvement in a student's education is correlated with improved academic performance.³³

Although we have accounted for some of these factors in our analysis of charter school performance (e.g., percentages of minority students and students who qualify for free or reduced-price lunch), we could not control for all of them. Moreover, we could not analyze alternative assessment data to the same extent as the MCA-II assessment data because alternative tests are not taken by all public school students. As a result, we could not compare charter and district school students' academic growth. Ultimately, the performance of charter schools in Minnesota is complex; each charter school and the experiences of its students are unique.

³³ See, for example, National Education Association, "Getting Involved in Your Child's Education," www.nea.org/parents, accessed May 14, 2008; and Michigan Department of Education, "What Research Says about Parent Involvement in Children's Education," http://www.michigan.gov/documents/Final_Parent_Involvement_Fact_Sheet_14732_7.pdf, accessed May 14, 2008.

Charter School Oversight

SUMMARY

Sponsors and the Minnesota Department of Education (MDE) have responsibility for overseeing charter schools. We found that some oversight roles are duplicative while gaps in oversight exist in other areas. Both sponsors and MDE approve charter school applications, leading to a duplication of effort and misunderstandings regarding each organization's role. Furthermore, the department has not implemented standards that sponsors should meet. Because sponsor expectations are not clear, sponsors perform their roles in a variety of ways. This can lead to gaps in oversight when sponsors do not fulfill their responsibilities. Conflict of interest laws for charter schools do not parallel comparable federal requirements, nor do they address conflicts of interest with sponsors. Additionally, the statutory requirement that charter school boards have a teacher majority leads to conflicts of interest. MDE has implemented a number of our recommendations from our 2003 report on charter school accountability; however, the sponsor's role still needs to be clearly defined.

As discussed in Chapter 1, Minnesota charter schools are exempt from some of the requirements that apply to district schools. In return for this flexibility, charter schools are subject to increased accountability by their sponsors who, in addition to the Minnesota Department of Education (MDE), oversee charter schools. In this chapter, we examine the roles of these two entities and explore other issues regarding charter school oversight. Specifically, we address the following questions:

- **How well do sponsors oversee charter schools?**
- **To what extent does the Minnesota Department of Education oversee charter schools and sponsors?**
- **To what extent does Minnesota have adequate charter school conflict of interest laws?**
- **To what extent has the department implemented recommendations made in the Office of the Legislative Auditor's 2003 report on charter school financial accountability?**

To learn more about how sponsors oversee charter schools and how MDE oversees charter schools and sponsors, we sent questionnaires to all charter schools and all sponsors. Almost 90 percent of charter schools and 79 percent of sponsors responded to our questionnaire. We also conducted site visits of 14 charter schools and 10 sponsors. (The charter schools and sponsors we visited are listed in Appendix C.) At each charter school we visited, we met with the school's director and, often, a member of its school board. At each sponsoring

organization, we met with the primary charter school liaison for the organization.¹

In addition to these site visits and questionnaires, we interviewed charter school staff at MDE and spoke with legislative staff, staff from the Minnesota Association of Charter Schools (MACS), and a number of other charter school interest groups. To better understand MDE's oversight practices, we also reviewed the department's charter school materials. We researched how other states oversee charter schools through a literature review and through interviews with representatives from local and national charter school organizations. For our analysis of the charter school conflict of interest law, we drew on our site visits, questionnaires, and interviews with MDE and legislative staff, as well as our review of state and federal laws concerning conflicts of interest. Finally, we reviewed MDE's practices to assess changes the department has made since our previous charter school evaluation in 2003.

RESPONSIBILITIES AND PRACTICES

Two entities, a sponsor and the Minnesota Department of Education, oversee each charter school.

Charter school law requires that two entities, a sponsor and MDE, oversee each charter school. As discussed in Chapter 1, the sponsor is required to authorize a charter school, while MDE is required to approve the sponsor's intent to authorize the charter school. In addition, sponsors must hold charter schools accountable for their student and fiscal performance, and MDE must ensure that charter schools are in compliance with state law. Based on our analysis, we found that:

- **Oversight of charter schools is unclear and complex, with duplication in some areas and gaps in others.**

As shown in Table 3.1, sponsors' and MDE's charter school oversight responsibilities range from approving charter schools to evaluating their performance at the time of contract renewal. In practice, duplication occurs in the charter school approval process, where both the sponsor and MDE approve charter school applications. Gaps in oversight occur because MDE has not implemented minimum standards for sponsors and only indirectly approves sponsors through the charter school application.

Gaps in oversight also exist with respect to sponsors' evaluations of charter schools. By law, at the end of each charter school contract, sponsors must evaluate the charter school and submit the evaluation to MDE for review and comment. Some sponsors do not conduct evaluations and some do not submit them to MDE for review and comment. Also, MDE's review of and comment on these evaluations has been inadequate, although it has recently taken steps to improve its review process.

In the following sections we discuss oversight duplication and gaps in more detail. Specifically, we review sponsors' oversight practices and expectations;

¹ Throughout this chapter, we refer to the sponsor's charter school liaison as the sponsor.

Table 3.1: Charter School Oversight Responsibilities and Practices

	Sponsor	Minnesota Department of Education (MDE)	Duplication or Gap
Approval of charter schools	Sponsors must authorize charter schools, subject to MDE’s approval. In practice, most sponsors approve the charter school application before it is submitted to MDE.	MDE is not required to authorize charter schools. In practice, MDE authorizes charter schools through an extensive application process.	Duplication
Oversight of financial and academic performance	Sponsors must monitor and evaluate the financial and academic performance of charter schools. In practice, oversight varies because of sponsors’ abilities and willingness to be involved.	MDE must ensure that charter schools conduct financial audits annually and meet state academic standards. In practice, MDE oversees charter schools similarly to district schools, with respect to financial audits and academic standards.	---
Oversight of sponsors	Not applicable	MDE’s responsibilities are not clearly laid out in law. In practice, MDE does not oversee sponsors.	Gap
Authorization of sponsors	Not applicable	State law does not explicitly direct MDE to approve sponsors. Instead, statutes require MDE to approve the sponsor’s intent to authorize a charter school. In practice, MDE indirectly approves the sponsor’s intent to authorize a charter school through approval of the charter school’s application.	Gap
Financial management training for charter school boards	Sponsors are not required to provide training. In practice, some sponsors provide training.	MDE must provide financial management training for new board members and ongoing training for all board members. In practice, MDE provides financial management training as part of its charter school pre-operation training process and ongoing training for all public schools.	---
Evaluations of charter schools	Sponsors must evaluate charter schools before contracts are renewed and submit the evaluations to MDE for comment. In practice, some sponsors conduct evaluations but do not submit reports to MDE. Other sponsors do not evaluate their charter schools.	MDE must review and comment on sponsors’ evaluations of charter schools. In practice, MDE’s review of and comment on evaluations has been inadequate; however, MDE has prioritized improving this process for 2008.	Gap
Charter school closure or contract nonrenewal	Sponsors may choose not to renew a contract or may terminate a contract mid-term. ^a In practice, sponsors have ended contractual relationships with charter schools.	MDE may terminate a contract between a sponsor and charter school; however, there must be cause for termination. In practice, MDE has never terminated a contract between a sponsor and charter school.	---

^a If a sponsor terminates a contract mid-term, it must provide cause for the termination; *Minnesota Statutes* 2007, 124D.10, subd. 23.

MDE's role in overseeing charter schools and sponsors; and the charter school approval process, where duplication is most prevalent.

Charter School Sponsors

As we mentioned in Chapter 1, sponsors must be one of the following types of organizations: (1) school boards, intermediate school district school boards, or education districts;² (2) nonprofit organizations with an end-of-year fund balance of at least \$2 million;³ or (3) Minnesota higher education institutions. MDE also sponsors ten charter schools under a continued provision of a previous law; however, the department is not authorized to become the sponsor of any additional charter schools.

As Table 3.2 shows, 53 organizations sponsored Minnesota charter schools during the 2007-08 school year.⁴ Nonprofit organizations sponsored almost half (45 percent) of charter schools. Higher education institutions sponsored more than 20 percent, and independent school districts sponsored 24 percent of charter schools. MDE and intermediate school districts sponsored the remaining 8 percent of charter schools. Though they are allowed to do so, no education districts sponsored charter schools in the 2007-08 school year. Individual sponsors ranged from sponsoring 1 to 15 charter schools. Current charter school sponsors are listed in Appendix D.

Oversight by Sponsors

By law, sponsors are required to “monitor and evaluate the fiscal and student performance of the charter school[s]” they sponsor.⁵ In addition to this ongoing monitoring, sponsors must also formally evaluate each school's academic and financial performance at the end of the contract term before the sponsor and charter school renew the contract. Based on our sponsor questionnaire and site visits, we found that:

- **Charter school sponsors vary in the amount of oversight they provide and in their ability to provide it.**

By law, sponsors must “monitor and evaluate the fiscal and student performance of the charter school[s]” they sponsor.

² Education districts are multi-purpose education cooperatives that serve a number of school districts. Typically, education districts provide staff development opportunities and special education services, among other things.

³ *Minnesota Statutes* 2007, 124D.10, subd. 3. Certain other nonprofit organizations that have less than \$2 million in assets may also sponsor charter schools if (1) the charter school has already been in operation for at least three years, and (2) the nonprofit organization has existed for at least 25 years.

⁴ One organization sponsors a charter school that has been approved but is not yet open. This sponsor is not counted as one of the 53 organizations that sponsored charter schools during the 2007-08 school year.

⁵ *Minnesota Statutes* 2007, 124D.10, subds. 4 and 6.

Table 3.2: Charter School Sponsors by Type of Organization, 2008

	Number of Sponsors	Number of Charter Schools Sponsored	Percentage of Total Charter Schools Sponsored
Independent School Districts	21	35	24%
Nonprofit Organizations	15	64	45
Higher Education Institutions	14	32	22
Intermediate School Districts	2	2	1
Department of Education	1	10	7
Education Districts	<u>0</u>	<u>0</u>	<u>0</u>
Total	53 ^a	143 ^b	100%

NOTE: Percentages may not sum to 100 due to rounding.

^a One higher education organization sponsors a charter school that has been approved but is not yet open. This sponsor is not included in the table.

^b In the 2007-08 school year, Minnesota had 143 charter schools, although some charter schools had multiple school sites.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education sponsor data.

Some sponsors require regular updates from their charter schools regarding fiscal and academic performance, while others require little information.

Sponsors differ in the amount of oversight they provide for their charter schools. Because of this variation, some schools receive far more scrutiny than others. For example, some sponsors regularly attend charter school board meetings and require monthly financial reports, copies of board minutes, and regular updates on academic performance. Other sponsors provide minimal oversight and require little information from the charter schools they sponsor. Of the sponsors that replied to our questionnaire, 52 percent said they attend at least two charter school board meetings a year, while 24 percent said they never do. Most sponsors that responded to our questionnaire (60 percent) said they always review their charter schools’ monthly financial statements, but some (17 percent) never review financial statements. Additionally, 57 percent of sponsors said they always review student test scores for the charter schools they sponsor, while one sponsor said she never reviews student test scores. One sponsor we visited only meets with its charter school once a year to review the school’s annual report. However, other sponsors practice more thorough oversight of the charter schools they sponsor. For example, Friends of Ascension (Ascension) has a representative attend at least two board meetings each semester for each of the schools it sponsors. Additionally, each of Ascension’s charter schools must submit monthly board minutes and financial information, and Ascension monitors its charter schools’ academic performance by comparing test scores to the state average and comparable district schools.

Differing levels of sponsor oversight were also apparent when we spoke with charter school directors as part of our charter school site visits. Some charter school directors said their sponsors meet with them monthly, review financial statements, attend board meetings, and visit the school. For example, Adam Abdulle charter school staff said their sponsor, Pillsbury United Communities

(Pillsbury), visits the school twice a year. When Pillsbury staff visit, they attend classes and talk with teachers, staff, and parents. Pillsbury also requires the school to submit all financial information and board minutes and monitors the school's compliance with charter school law. In contrast, some charter school staff we met with said they rarely communicate with their sponsors. One director said his sponsor does not care about the annual reports or student performance data, nor does his sponsor provide input on financial management. In response to our questionnaire, one charter school director, who has worked with two different sponsors, said the "role and level of involvement of these two sponsors has been vastly different." He went on to say that the first sponsor he worked with consistently provided expert advice across a range of issues, while the new sponsor has not provided any feedback and has been essentially absent in its oversight role.

One sponsor told us he did not have the capacity to oversee a charter school's financial performance.

Sponsors also differ in their ability to carry out the various aspects of charter school oversight, including oversight of a charter school's financial and academic performance. One sponsor we visited told us that he did not have the capacity to oversee a school's financial performance or compliance with charter school law. Another sponsor had not monitored her charter school's academic performance and did not know the charter school had not made Adequate Yearly Progress.⁶ Other sponsors can draw on the expertise of their organizations to provide higher quality oversight. For example, the St. Paul Public School District's charter school liaison works with the district's Office of Accountability to conduct quality reviews of the charter schools it sponsors. These reviews evaluate many aspects of a school's operations and are comparable to the reviews the district conducts of its own schools.

Some sponsors said they would provide more oversight of the charter schools they sponsor if they received more compensation. To fulfill their obligations, organizations may charge the charter schools they sponsor.⁷ However, six of the ten sponsors we visited said their organizations either subsidize their sponsorship duties or would need additional resources to adequately oversee the charter schools they sponsor. When we asked sponsors in our questionnaire, "How does the amount of state funding affect your organization's approach to its sponsoring roles and responsibilities, if at all?" one sponsor answered, "It makes it very difficult to have adequate capacity to oversee all aspects of the schools we sponsor." Another sponsor said, "The amount of funding for the sponsor is so inadequate that it prevents both quality compliance monitoring and creative partnerships." According to our sponsor questionnaire, of the 23 sponsors that said they limit the number of charter schools they sponsor, 6 said this is at least partly due to financial limitations. One sponsor, when asked why his

⁶ Adequate Yearly Progress (AYP) is a measure based on overall student attendance, academic performance, and graduation rates. Schools must annually meet the MDE-specified targets to be in compliance with the federal No Child Left Behind Act. See Chapter 2 for more information on AYP.

⁷ *Minnesota Statutes* 2007, 124D.10, subd. 15(b), states that a sponsor may "assess a charter school: (1) in its first, second, or third year of operation up to \$30 per student up to a maximum of \$10,000; and (2) in its fourth or a subsequent year of operation up to \$10 per student up to a maximum of \$3,500."

organization limits the number of charter schools it sponsors, said, “Staff resources and financial resources do not permit us to sponsor more than one charter school and be diligent with the oversight, partnership, and mentoring of the charter school.”

Expectations of Sponsors

Confusion about the role of the sponsor contributes to the variation in sponsor oversight. Based on our site visits, questionnaires, and interviews, we found that:

- **Expectations for charter school sponsors are not clear.**

In general, sponsors have different ideas regarding their role, and some sponsors said that their role is not clear to them. Through our sponsor questionnaire, we learned that almost one-third of sponsors think the most important part of being a sponsor is to be a compliance monitor. Another 29 percent said the most important part is to be a partner with the charter schools they sponsor. One sponsor we visited told us that he does not know what the role of the sponsor is. In our questionnaire, when we asked sponsors whether they agreed that, “Overall, the sponsor’s role with charter schools is clear,” 45 percent of respondents said they disagreed or strongly disagreed with this statement. In response to an open-ended question at the end of the survey, one sponsor said, “The role of sponsor is not clearly defined and therefore leads to very different models of support that do not always lead to success for the sponsor relationship, the school, and ultimately the students they serve.” According to an official with the Minnesota Association of Charter Schools (MACS), the sponsor’s role is not clear to charter school developers or sponsors.

Most sponsors think they should meet a minimum set of standards before they are allowed to sponsor a charter school.

Several sponsors thought MDE should establish minimum standards for sponsors to follow, and that the department should hold sponsors accountable to these standards. Almost 90 percent of sponsors that responded to our questionnaire agreed or strongly agreed that “sponsors should meet a minimum set of standards before they are allowed to sponsor charter schools.” No respondents disagreed with this statement. Similarly, 93 percent of charter school staff agreed or strongly agreed that sponsors should meet a minimum set of standards. During our site visits, one sponsor thought that someone should “oversee the overseers” and that MDE should certify sponsors.

In recent years, MDE developed sponsor standards in collaboration with sponsors and charter schools. The department published these standards in its Minnesota Quality Charter School Sponsor Evaluation Rubric, which largely paralleled the National Association of Charter School Authorizer’s (NACSA) *Principles and Standards of Quality Charter School Authorizing*.⁸ According to the sponsor evaluation rubric, one of the four purposes of the standards MDE created was to

⁸ Minnesota Department of Education, “The Minnesota Quality Charter School Sponsor Evaluation Rubric” (St. Paul, 2006); and National Association of Charter School Authorizers, *Principles and Standards for Quality Charter School Authorizing* (Chicago, 2007).

“assess the extent of quality sponsorship across Minnesota’s charter schools.”⁹ The standards address sponsor capacity, charter school application processes, contract development and compliance, ongoing oversight processes, performance evaluation systems, and contract renewal decisions.

Although MDE developed these sponsor standards, it has not required sponsors to follow them. MDE staff said they struggle with how and when to require sponsors to meet the standards the department has developed. Staff are unsure how much sponsor capacity should be developed before they require sponsors to meet a set of standards and who would oversee the sponsors and enforce the standards. In interviews, MDE staff agreed that sponsors need to improve, but said that the department does not have the time or resources to implement standards.

Additionally, we found that:

- **The Minnesota Department of Education’s responsibilities with respect to oversight of sponsors are not clearly outlined in law.**

As discussed in Chapter 1, Minnesota statutes require the department to approve or disapprove a sponsor’s affidavit stating its intent to sponsor a charter school.¹⁰ The law does not explicitly give MDE authority to approve sponsors, only the authority to approve a sponsor’s intent to authorize a specific charter school. As a result, MDE staff believe they do not have the authority to directly approve sponsors. They also believe they do not have the authority to determine, in general, whether a sponsor has sufficient capacity to sponsor a charter school. The department’s only eligibility requirement for sponsors is that they are one of the three types of organizations specified in law. However, deciding whether to approve a sponsor’s intent to authorize a specific charter school should reasonably include some determination of the sponsor’s ability to sponsor and monitor the charter school it is proposing to authorize. MDE staff say they review a sponsor’s capacity to charter a new school on a case by case basis through the sponsor section of the charter school application. However, MDE staff do not evaluate a sponsor’s overall ability to sponsor charter schools.

Despite the ambiguity in law, the majority of both sponsors and charter schools thought that MDE should approve sponsors. In our questionnaires, both sponsors (62 percent) and charter school directors (63 percent) agreed or strongly agreed that “MDE should formally approve sponsors in an application process separate from the charter school application.” Some sponsors, during our site visits, said they believe sponsors should apply to become sponsors, and several sponsors we visited indicated that MDE does not authorize sponsors or hold them accountable. Some sponsors also think sponsors should have to renew their sponsorship privileges, or MDE should be allowed to revoke those privileges if sponsors do not adequately meet their responsibilities. Another sponsor said

Minnesota Department of Education staff do not evaluate a sponsor’s overall ability to sponsor a charter school.

⁹ Minnesota Department of Education, “The Minnesota Quality Charter School Sponsor Evaluation Rubric” (St. Paul, 2006), 1.

¹⁰ *Minnesota Statutes* 2007, 124D.10, subd. 4(b).

MDE should certify that sponsors have adequate capacity to oversee charter schools. One sponsor we visited said Minnesota could establish statewide criteria for sponsors; he thought it would be good to have a sponsor “accreditation process” that sponsors would have to complete on a regular basis.

Minnesota Department of Education

As with district schools, MDE is responsible for ensuring charter schools’ compliance with state laws and reporting requirements. In addition, the department must provide financial management training to members of charter school boards.¹¹ MDE is also required to provide a “review and comment” of sponsors’ charter school evaluations before the charter school contracts can be renewed.¹² As discussed below, we found gaps in the extent to which MDE fulfills these requirements.

Financial Management Training

By law, MDE must provide financial management training annually to newly-elected members of charter school boards and ongoing training to other members of charter school boards.¹³ Based on interviews and our review of Minnesota law and the department’s practices, we found that:

- **While the Minnesota Department of Education provides financial management training as required by law, the training is not geared toward board members of existing charter schools.**

MDE provides two broad types of financial management training for charter school board members: (1) training for board members of new charter schools and (2) training for board members of existing charter schools. MDE’s training for board members of new charter schools focuses on issues relevant for charter schools; its training for board members of existing charter schools, however, is not as targeted.

MDE requires that charter school developers (who often become charter schools’ initial board members) attend financial management training during the charter school development period.¹⁴ MDE staff told us that this training is also open and available to board members of existing charter schools. However, this training is geared toward board members of new charter schools and may not address issues that may be more relevant for established schools. For example, the training for board members of new charter schools includes an overview of how to establish the school, obtain a Minnesota tax identification number, submit

¹¹ *Minnesota Statutes* 2007, 124D.10, subd. 4(f).

¹² *Minnesota Statutes* 2007, 124D.10, subd. 15.

¹³ *Minnesota Statutes* 2007, 124D.10, subd. 4(f).

¹⁴ Generally, after MDE approves a charter school, developers go through a development period where they prepare to open the charter school. Developers plan their curriculum, acquire academic resources, hire teachers, and recruit students during this time. Recently, MDE implemented required training sessions for charter schools during this period.

articles of incorporation to the Minnesota Secretary of State, and establish a checking account. These are all things that are not relevant for board members of existing charter schools. Additionally, some charter school boards experience high turnover, meaning that board members who attended this initial training may no longer serve on a charter school's board.

To satisfy its obligation to provide ongoing training, MDE staff said they provide annual financial management training that is available to all school district and charter school staff, including administrators, professional staff, and board members. However, MDE does not provide ongoing training geared specifically to charter school board members. MDE staff acknowledged that charter schools may have unique issues, such as cash flow management, that would require training different from the school district financial management training it currently offers. In recent years, MDE staff have provided some "targeted" financial training and technical assistance for board members of existing charter schools; this training is provided on a case by case basis.

We also found that:

- **In contrast to school district board members, charter school board members are not required to attend financial management training and many do not.**

Although MDE must provide financial management training, charter school board members are not required to attend.

Although MDE must *provide* financial management training to newly-elected board members of existing charter schools, board members are not required to *attend* the training.¹⁵ Minnesota statutes set forth different financial management training requirements for school district and charter school board members. By law, school district board members must attend financial management training within 180 days of being elected to the school board.¹⁶ Charter school board members, in contrast, have no such training requirement.

Although MDE's training is advertised to school districts, charter schools, and sponsors, department staff said charter school board member participation is lacking at these trainings. According to our site visits, many newly-elected charter school board members do not attend MDE's financial management training. One charter school director said they have been "religious" in their compliance with training regulations; however, while the original board members attended financial management training, newer board members have not. Another charter school director we spoke with, who leads a charter school sponsored by MDE, said their new board members have never attended financial management training at the department. Some charter school directors said that the board members for their schools attend financial management training provided by MACS, rather than the department. From our questionnaire, 57 percent of charter school directors thought training charter school board members was an important or very important MDE responsibility. However, when we asked charter school directors the extent to which they were satisfied with how

¹⁵ *Minnesota Statutes* 2007, 124D.10, subd. 4(f).

¹⁶ *Minnesota Statutes* 2007, 123B.09, subd. 2.

well MDE fulfilled its role and responsibility in training charter school board members, less than 40 percent were satisfied or very satisfied.

Sponsor Evaluations of Charter Schools

Both sponsors and MDE play a role in evaluating charter schools upon contract renewal. By law, sponsors must evaluate their charter schools and decide whether to renew the contracts; MDE must review and comment on the sponsor evaluations prior to contract renewal.¹⁷ Sponsors send copies of their evaluations to MDE for review and comment, and MDE keeps the evaluations on file. We reviewed MDE’s charter school files and analyzed the extent to which the department fulfilled this responsibility, and we found that:

- **The Minnesota Department of Education did not adequately review sponsors’ charter school evaluations. However, the department initiated a new review process in spring 2008.**

MDE did not have copies of almost half of the sponsor evaluations of charter schools that should have been submitted from 2000 through 2007, indicating that MDE either never received them or did not have a record of them. Just over one-third of the sponsor evaluations MDE, itself, was required to conduct of the charter schools it sponsors were on file; MDE did not have any evaluations from 12 sponsors (who sponsored a total of 15 charter schools).

In addition, MDE did not provide the required review and comment for almost three-fourths of the evaluations it had on file. One sponsor told us he submitted a blank charter school evaluation form to MDE (which we found during our file review) and never received a response from the department. Most of the comments MDE had on file consisted of a form letter thanking the sponsor for submitting the charter school evaluation but did not comment on the nature of the evaluation or its findings. Although the quality of the sponsor evaluations that were completed is not clear, they are required under law and are part of Minnesota’s charter school model. The effect of incomplete or substandard evaluations on charter schools is not clear.

MDE has developed a new review and comment process for sponsor evaluations, which it plans to implement in 2008. The new process includes an assessment of the extent to which the sponsor evaluated the charter school’s purpose, fulfillment of contract terms, and compliance with charter school law. MDE plans to use the results from these reviews to identify areas where sponsors need to improve. The department will then draw on this information to develop future sponsor training sessions.

Duplicative Roles

Before a new school can open, its sponsor must approve the charter school’s application and submit an affidavit to MDE “stating its intent to authorize a

The Minnesota Department of Education did not provide the required review and comment for almost three-fourths of the charter school evaluations it had on file.

¹⁷ *Minnesota Statutes* 2007, 124D.10, subd. 15.

charter school.”¹⁸ The Department of Education must then “approve or disapprove the sponsor’s proposed authorization” of the charter school.¹⁹ If MDE does not approve the proposed authorization, the sponsor cannot authorize the charter school.²⁰ However, we found that:

- **Both sponsors and the Minnesota Department of Education approve charter school applications, which leads to inefficiencies and duplication of effort.**

By law, MDE is responsible for approving a sponsor’s intent to authorize a charter school.²¹ The department satisfies this requirement by approving charter school applications. In doing so, MDE approves not just the sponsor’s intent to authorize a charter school, but also the charter school, itself. This serves as a second approval of the charter school’s application. In 2007, MDE reviewed 22 charter school applications, all of which had been authorized by sponsors, and approved 11. MDE staff said they do not limit the number of charter schools they approve each year; approvals are based solely on the quality of the proposal.

Over the past few years, MDE has created an extensive charter school application review process that includes a detailed application review rubric and teams of reviewers. MDE staff said they created the review process in part to address lax oversight by sponsors and in part to combine the state application with the federal charter school program (CSP) planning grant application, which is administered by MDE.²² Department staff said the process helps to ensure that all charter schools are held to the same expectations.

The Minnesota Department of Education’s approval of charter school applications can undermine the sponsor’s role as a school’s authorizer.

When sponsors implement their own application process, however, MDE’s approval of charter school applications creates a duplication of effort and undermines the sponsor’s role as a school’s authorizer. MDE implemented its charter school application process in part to address lax review by sponsors; but, many sponsors we visited have a rigorous application process that charter school developers must complete before the sponsors will agree to authorize their school. (Some sponsors have applications that are similar to MDE’s application; others have separate application requirements.) Many sponsors also review the charter school applications required by MDE before developers submit them to the department. For example, Pillsbury first requires charter school developers to submit to the organization an executive summary of their proposed charter school. Upon approval, Pillsbury requires the developers to submit a full application, in addition to MDE’s application, 60 days prior to the department’s charter school application due date. Volunteers of America and St. Paul Public Schools also have charter school applications separate from MDE’s. Of the

¹⁸ *Minnesota Statutes* 2007, 124D.10, subd. 4(b).

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ *Ibid.*

²² The federal CSP planning grant provides new charter schools with funding for their first three years. Each charter school can receive up to \$180,000 each year, for a total maximum amount of \$540,000 per school over three years.

sponsors that responded to our questionnaire, 43 percent said they formally approve charter school applications before they are submitted to MDE for approval. One sponsor we visited said the application process is duplicative; she would rather have the full authority to approve charter schools or give MDE full authority to do so.

Some other states have different charter school oversight structures.

Other states’ practices for approving charter schools vary. For example, Arkansas, Utah, and Michigan have authorizers (as sponsors are called in other states) that approve charter school applications in addition to approval by the state education agency or state board of education, similar to Minnesota’s dual approval system.²³ Some states (Colorado and Arizona, among others) have created independent chartering boards. In these states, the independent chartering board has the authority to approve charter school applications. Since 2004, seven states have created independent chartering boards, and two more states are expected to create this type of system next year.²⁴ One state (Ohio) has a two-tiered approval system in which the state approves the authorizer, who then has authority to approve charter schools.

Recommendations

Based on our evaluation of sponsors’ and MDE’s roles and responsibilities, we make the following recommendations regarding the structure of charter school oversight in Minnesota.

Clarify Roles

RECOMMENDATION

The Legislature should clarify the roles of the Minnesota Department of Education and sponsors with respect to charter school oversight.

As discussed throughout this section, there is duplication of charter school oversight in some areas and gaps in others, in large part because of unclear roles and expectations for charter school sponsors. There are several options the Legislature could consider for improving oversight of charter schools and clarifying MDE’s and sponsors’ roles. Below, we lay out three different options for the Legislature to consider; all would require changes to the charter school law. The options strive to ensure that people and organizations with appropriate expertise and adequate capacity monitor and evaluate charter school performance. We evaluated these options using several criteria, including which options would improve efficiency in charter school oversight and which would provide needed assistance to charter schools during the pre-operational phase.

²³ In Utah, the only time a charter school needs dual approval is if the state’s Independent Charter Board authorizes the charter school first.

²⁴ Prior to 2004, Arizona and Washington, D.C. established charter school authorizing boards. Since 2004, Colorado, Florida, Georgia, Hawaii, Idaho, South Carolina, and Utah created charter school authorizing boards. Nevada and Oregon are considering creating such boards.

We also took into consideration the current oversight structure in law and weighed the benefits and costs to making significant changes.

We recommend the Legislature implement Option 1, “Increase Sponsors’ Authority,” which would eliminate the duplication of effort that currently exists. This option would also preserve the role of sponsors, notably during a charter school’s start-up phase.

OPTION 1: Increase Sponsors’ Authority

Under this option, MDE would directly approve and authorize sponsors and, in return, sponsors would have more direct authority over charter schools. To gain MDE authorization, sponsors would have to (1) develop a comprehensive charter school approval process, (2) demonstrate capacity to provide financial and academic oversight of charter schools, (3) establish a charter school monitoring plan, and (4) meet other criteria developed by the department. Sponsors that are approved by MDE would be allowed to authorize charter schools that meet the sponsors’ criteria, without going through the department’s charter school application approval process. All charter schools would be required to be sponsored by MDE-approved sponsors.

Under Option 1, the Minnesota Department of Education would approve sponsors, and sponsors would approve charter schools.

MDE would be responsible for ongoing review, oversight, and approval of sponsors. If sponsors did not meet the department’s requirements, MDE could remove sponsoring authority from those organizations. Sponsors would have to submit to MDE’s sponsor approval process every five years, with the authorizing process being transitioned in over a five-year period. MDE would first focus on approval of new sponsors, but by the end of the five-year period, all sponsors (including those that already sponsor charter schools) would need to be MDE-approved in order to continue sponsoring. During the transition period, MDE would continue to approve charter school applications for those schools being sponsored by an existing sponsor that is not yet approved by the department. After the transition period, MDE would no longer approve charter schools; instead, it would approve sponsors, and sponsors would approve charter schools.²⁵

As mentioned earlier, Ohio has a similar system, where the state approves the sponsor, who then has authority to approve charter schools. An official from the National Alliance for Public Charter Schools, which studies charter school systems throughout the nation, said it is reasonable for the state to approve sponsors when there are a number of different organizations that are allowed to authorize charter schools (as is the case in both Minnesota and Ohio).

The primary benefit of this option is that it clarifies the roles of sponsors and MDE, largely within the current structure. Under this option, MDE would have direct oversight of sponsors, who would have direct oversight of charter schools. MDE’s oversight of charter schools would be limited to compliance-related

²⁵ Although under this option MDE would not approve charter school applications to determine whether a school can open, MDE would still be responsible for reviewing new charter schools’ federal charter school program planning grant applications.

issues, as it is for all public school districts in Minnesota. This option also preserves the role of the sponsor as an entity that is separate from the state's public education structure, but one that has authority over charter schools.

The primary drawback of this option is that by increasing sponsors' responsibilities, the Legislature will likely need to increase sponsor funding. Additionally, if the department does not approve an existing sponsor, some existing charter schools could be left without a sponsor. The department would need to identify a process to find a new sponsor for these charter schools. Finally, some sponsors we visited were concerned that increased sponsor standards would lead to a reduction in the number of sponsors in Minnesota, thereby imposing a de facto cap on the number of charter schools in the state.

OPTION 2: Independent Board of Charter School Authorizers

Under Option 2, an independent charter school board would sponsor and oversee charter schools.

Under this plan, the Legislature would create an independent board of charter school authorizers (what sponsors are called in most other states). This is similar to how charter schools are authorized in Arizona, Colorado, Florida, Georgia, Hawaii, Idaho, South Carolina, Utah, and the District of Columbia.²⁶ With this option, the board would be separate from MDE and not tied to the existing state education structure. The board's sole purpose would be to sponsor, monitor, and evaluate all charter schools in Minnesota. In essence, the board would take the place of sponsors. MDE would be responsible for ensuring charter school compliance with state laws and reporting requirements, as it is for all public school districts in the state.

The primary benefit of this option is that the state would be assured that the sponsoring entity has the expertise and capacity to monitor and evaluate charter schools. Additionally, the lines of oversight and responsibility would be clearer, as it would be simpler for MDE to coordinate its efforts with one sponsoring entity than with the 50-plus organizations that currently sponsor charter schools. Finally, under this option, charter schools would remain free from the traditional public school structure. The largest drawback to this option is that the state would have to create a new entity, which would likely require additional state funds. Some states that have separate authorizing boards have had problems with sufficient and consistent funding. Additionally, depending on the composition of the authorizing board, it could be susceptible to political influence, especially in approving new charter schools.

OPTION 3: Eliminate Sponsors

Under this option, MDE would assume the sponsors' current charter school oversight responsibilities, and sponsors would be eliminated. Under law, it is the sponsor's responsibility to monitor and evaluate the financial and academic

²⁶ Only the boards in Arizona, Florida, and the District of Columbia are completely independent. See Louann Bierlein Palmer, "'Alternative' Charter School Authorizers, Playing a Vital Role in the Charter Movement," http://www.ppionline.org/documents/Alternative_Charter_122106.pdf, accessed April 29, 2008. Georgia approved its authorizing board in May 2008 and is not included in this article.

Under Option 3, the Minnesota Department of Education would assume all charter school approval and oversight responsibilities.

performance of charter schools.²⁷ However, some sponsors provide little oversight of the charter schools they sponsor with seemingly little impact on the schools' success. The department has the expertise to fulfill these responsibilities; to some extent, MDE currently fills this role for other public school districts in the state.

According to NACSA, the state education association (SEA) is the sole charter school authorizer in five states: Arkansas, Massachusetts, Mississippi, New Jersey, and Rhode Island.²⁸ Massachusetts was included in a report published by the U.S. Department of Education highlighting quality authorizers.²⁹ In the report, the Director of the Massachusetts Charter School Office is quoted as saying, "Single authorizer states are bound to be more successful in many ways because there is a clear picture. We are able to give every school in the state the same information, the same clarification, the same point of contact."³⁰

Some charter school staff thought MDE could replace sponsors. One charter school we visited thought the role of sponsors is "somewhat of a mystery," and could be filled by the state. In response to our questionnaire, one charter school director said, "We do not see the need for the extra layer of bureaucracy of a sponsor once a charter [school] has proven itself successful and competent." In contrast, however, some charter school directors said they believe it is important to have an entity, separate from MDE, to hold charter schools accountable.

The primary benefit of eliminating sponsors and having MDE fill the sponsor role is that duplication in oversight would no longer occur. By removing the double layers of oversight, roles and responsibilities would be clarified. As mentioned by the staff in the Massachusetts SEA, there would be a clear and consistent message if MDE served as the state's sole charter school sponsor. If the Legislature selects this option, it should re-direct current sponsor funding to the department to compensate for the added responsibilities.

The primary drawback of this option is that centralizing authority within MDE is contrary to a basic premise of charter schools. Central to the idea of charter schools was to allow schools to develop free from the state public education structure. By giving MDE responsibility for additional oversight of charter schools, the original intent of charter schools is in jeopardy. Staff from the Massachusetts Charter School Office acknowledged that they are part of the state's education structure; in the U.S. Department of Education report, the state's Coordinator of Research and Finance in the Massachusetts Charter School

²⁷ *Minnesota Statutes* 2007, 124D.10, subd. 15(b).

²⁸ National Association of Charter School Authorizers, *Principles and Standards For Quality Charter School Authorizing* (2007), 12. This document also lists Hawaii as having the SEA as the sole charter school authorizer. However, in 2007, Hawaii changed from having the SEA approve charter schools to establishing a charter school authorizing board.

²⁹ U.S. Department of Education, Office of Innovation and Improvement, *Supporting Charter School Excellence Through Quality Authorizing* (Washington, D.C., June 2007).

³⁰ *Ibid.*, p. 74.

Office said, “You definitely have to work within the state bureaucracy in order to do your job.”³¹

Implement Sponsor Standards

RECOMMENDATION

The Minnesota Department of Education should implement standards for charter school sponsors and provide additional training to ensure that sponsors have the capacity to meet them.

Additionally, the Minnesota Department of Education should periodically verify that charter school sponsors meet the department’s standards.

If sponsors are retained, as recommended in Option 1 above, MDE should implement standards for sponsors and hold sponsors accountable to them. Other than requiring that sponsors be one of the qualifying organizations laid out in statute, MDE does not directly or formally approve charter school sponsors. As a result, Minnesota could have sponsors without adequate expertise, capacity, or even knowledge of their roles as sponsors. MDE could draw on national sources, the standards it has already developed, or establish new standards to better define sponsors’ roles and responsibilities.³²

Standards for sponsors should clearly and specifically outline the expertise necessary for sponsors to fulfill their responsibilities.

Whichever standards MDE decides to implement, the standards should clearly and specifically outline the expertise necessary for sponsors to fulfill their responsibilities and provide appropriate oversight of charter schools. At a minimum, sponsors should be expected to review their schools’ financial performance and board minutes monthly; regularly review their schools’ academic performance, as demonstrated by scores on standardized assessments; and attend one or more school board meetings each year. The standards should also address sponsors’ responsibilities with respect to the charter school application process, contract negotiations, and the sponsors’ charter school evaluations and contract renewal process. These practices are being done by many of the sponsors we visited and are reasonable expectations given sponsors’ responsibility to “monitor and evaluate the fiscal and student performance of the school.”³³

In addition to establishing sponsor standards, the department should identify training requirements that will help all sponsors adequately fulfill their responsibilities. MDE can help develop sponsor capacity and improve sponsor oversight through training sessions centered on standards, development and

³¹ U.S. Department of Education, Office of Innovation and Improvement, *Supporting Charter School Excellence Through Quality Authorizing* (Washington, D.C., June 2007), p. 75.

³² National Association of Charter School Authorizers, *Principles and Standards for Quality Charter School Authorizing* (Chicago, 2007). MDE developed its own standards, which largely parallel the national standards.

³³ *Minnesota Statutes* 2007, 124D.10, subd. 15(b).

The Minnesota Department of Education should ensure that sponsors meet the standards established by the department.

dissemination of sponsor best practices, conferences where sponsors have the chance to meet and share ideas, and training sessions focused on sponsor oversight responsibilities of financial and academic performance of charter schools. MDE has already improved sponsor support through training sessions with new sponsors; we encourage them to continue to develop this training and expand it to all charter school sponsors.

Some MDE staff do not believe they have the authority to require that sponsors follow standards. However, because by law MDE must approve a sponsor's intent to authorize charter schools, we believe the department has the authority to require that sponsors follow a set of MDE-developed standards. Nevertheless, MDE should request rulemaking authority to allow the department to implement these standards and enforce them as rules. Once MDE implements its standards for sponsors, it should ensure that sponsors are meeting them. The department should establish a process whereby it evaluates sponsors on a regular basis (every three to five years) and verifies that sponsors are providing adequate oversight of the charter schools they sponsor.

Require Charter School Board Training

RECOMMENDATION

The Minnesota Department of Education should provide financial management training tailored to board members of established charter schools.

Additionally, the Legislature should require all new charter school board members to attend financial management training within one year of being elected.

While MDE offers financial management training to board members, many newly-elected charter school board members do not attend the training. This is because (1) the training is geared toward new charter schools and not newly-elected members of established charter schools, and (2) the law states that MDE must provide the training but does not require that board members attend. In contrast, board members of school districts are required to receive financial management training within 180 days of being elected.

If MDE provided financial management training tailored to board members of established charter schools, it would more fully meet the intent of the law and likely be more useful to charter school board members. Charter school board members should be required to attend this training to ensure a baseline of understanding regarding charter school financial management issues.

BOARD CONFLICTS OF INTEREST

Charter school boards are subject to state and federal laws requiring charter school board members to avoid or disclose conflicts of interest. In addition, Minnesota law requires the majority of a charter school's board members to be

teachers, which could create opportunities for conflicts of interest. In this section, we evaluate the adequacy and impact of the conflict of interest laws, and discuss how the requirement for a teacher majority on charter school boards can lead to conflicts of interest.

Conflict of Interest Provisions

Minnesota has two conflict of interest laws for charter school boards: one that applies only to charter schools, and one for school districts that charter schools are also obligated to follow. In addition to the state conflict of interest laws, charter school boards are also subject to federal conflict of interest laws if they receive federal funds. We compared charter school conflict of interest laws to federal conflict of interest laws and those for school districts and found that:

- Minnesota’s conflict of interest laws for charter school boards are weaker than comparable federal requirements and do not fully address conflicts of interest with close relatives, nonprofit organizations, and sponsors.**

Conflict of interest laws for charter school board members are weaker than comparable federal requirements and requirements for Minnesota school district board members.

As shown in Table 3.3, several federal conflict of interest provisions that apply when charter schools receive federal start-up grants are not reflected in state statutes. For example, federal regulations state that a conflict of interest exists if a board member’s immediate family member has a financial interest in a firm selected to provide services for the charter school.³⁴ However, the state’s charter school conflict of interest laws do not consider a family member’s involvement in such an organization as a conflict of interest. Thus, business arrangements or practices that constitute conflicts of interest for a charter school receiving federal start-up grants may be legally practiced by more established charter schools that no longer receive federal funds.

While state law prohibits charter school board members from being employees or on the board of a *for-profit* organization that provides services for their charter school, charter school law does not prohibit board members from being employees or on the board of a *nonprofit* organization that provides services for their charter school. Minnesota charter school statutes require only that this relationship be disclosed to MDE.³⁵ In contrast, state conflict of interest laws for school district boards, which also apply to charter school boards, do not stipulate whether a contracting organization is nonprofit or for-profit—any situation in which a district board member could benefit financially from a contractual relationship with the school district constitutes a conflict of interest.

Two results are evident from the conflict of interest laws regarding school boards and nonprofit organizations. First, the conflict of interest laws for school districts place more limitations on school board members than do the conflict of interest laws for charter schools. Second, Minnesota’s charter school laws contain conflict of interest requirements for charter school boards and also require charter

³⁴ 34 *CFR* sec. 80.36(b)(3) (2007).

³⁵ *Minnesota Statutes* 2007, 124D.10, subd. 4a(c).

school boards to follow the conflict of interest laws for school district boards. As outlined in Table 3.3, these two sets of conflict of interest provisions are at odds, particularly with respect to board members who are employed by a nonprofit organization that provides services to the charter school.

Table 3.3: Potential Conflicts of Interest for Charter School Boards and Applicable Laws

	Conflict of Interest Under Minnesota Charter School Law?	Conflict of Interest Under Federal Law? ^a	Conflict of Interest Under Minnesota School District Law?
Board member is also an employee of a for-profit organization or is an independent contractor with which the charter school contracts	Yes	Yes	Yes
Board member is also an employee of a nonprofit organization with which the charter school contracts	No ^b	Yes	Yes
Board member's immediate family member provides contracted services	No	Yes	No
Sponsor provides financial or business management services for a fee ^c	No	No	Not applicable
Sponsor provides educational services for a fee ^c	No	No	Not applicable

^a Federal laws apply to charter schools that receive federal funding. Many new charter schools receive federal start-up funds for their first three years of operation.

^b Board members must disclose these relationships to the Minnesota Department of Education.

^c Such fees are different from the fee sponsors are statutorily allowed to assess charter schools to "monitor and evaluate the fiscal and student performance of the school." *Minnesota Statutes* 2007, 124D.10, subd. 15(b).

SOURCES: *Minnesota Statutes* 2007, 471.87; and 124D.10, subds. 4a and 15(b); and *34 CFR* secs. 75.525 and 80.36(b)(3) (2007).

State law does not address sponsors' potential conflicts of interest.

State law does not address possible conflicts of interest created when a sponsor provides its charter school with goods or services for a fee.³⁶ However, if a sponsor benefits financially from its relationship with a charter school it sponsors, it could influence the sponsor's decision to renew the charter school contract. A director from one charter school we visited said her school used to contract with its sponsor for financial management services, even though she thought it was a conflict of interest. The director said she did not "speak up" about this arrangement for fear of losing the space the school rented from the sponsor. A sponsor we visited (who sponsors other schools) said her organization leases space to one of its charter schools, which she sees as a potential conflict of interest. However, she said that as the charter school

³⁶ This fee is different from the fee sponsors are statutorily allowed to assess charter schools to "monitor and evaluate the fiscal and student performance of the school." *Minnesota Statutes* 2007, 124D.10, subd. 15(b).

sponsor, she is not involved with the lease negotiations or agreement; there is a clear line separating the charter school contract and the lease contract.

Opinions from charter school staff and sponsors are mixed on this subject. Forty-eight percent of charter school staff that responded to our questionnaire agreed or strongly agreed that “sponsors should not be allowed to sell services to the charter schools they sponsor,” while 39 percent disagreed or strongly disagreed. When we asked sponsors a similar question, 26 percent of the respondents agreed or strongly agreed and 50 percent disagreed or strongly disagreed that sponsors should not be allowed to sell services to the charter schools they sponsor.

Teacher Majority on Charter School Boards

By law, unless a charter school receives a waiver from MDE, licensed teachers employed at the school must comprise a majority of the charter school board members before the end of the school’s third year of operation.³⁷ According to MDE, since January 2007, the department has approved 14 teacher majority waiver requests and denied 15. Currently, 24 charter schools have active teacher majority waivers.³⁸ Of the charter schools that responded to our questionnaire, 63 percent have a teacher majority on their boards; 10 of the 14 charter schools we visited have a teacher majority on their boards.

During our 2003 analysis of charter school financial management, and again in this evaluation, we found that:

- **Requiring a teacher majority on charter school boards creates a conflict of interest and makes it more difficult for schools to obtain needed expertise.**

Requiring a teacher majority on charter school boards contradicts best practices for organizational governance.

Having a teacher majority requirement for charter school boards contradicts best practices for nonprofit management and organizational governance. The Minnesota Council of Nonprofits recommends that “No more than one employee of the organization should serve as a voting member of the board of directors and staff should not serve as chair or treasurer of the Board.”³⁹ Charter school boards are also nonprofit boards or cooperatives; as such, nonprofit management best practices are relevant for charter schools to consider. Additionally, we found in our 2003 report on charter school financial accountability that the lack of an independent school board contributed to financial management problems for some charter schools. As we stated in that report, “The inherent conflicts of interest associated with a teacher-majority board exacerbated financial problems. For example, in at least one school, teachers were slow to react to revenue

³⁷ *Minnesota Statutes* 2007, 124D.10, subd. 4(c). Minnesota is the only state that requires the majority of a charter school’s board members to be teachers.

³⁸ According to MDE, one request for a teacher majority waiver is currently under review. Schools are not required to have a teacher majority or a waiver in their first three years of operation.

³⁹ Minnesota Council of Nonprofits, *Governance Basics*, http://www.mncn.org/info/basic_gov.htm#board%20structure, accessed May 15, 2008.

shortfalls because they were reluctant to cut their own salaries or lay off teachers.”⁴⁰

Most sponsors believe that charter school boards should not be required to have a teacher majority. According to our questionnaire, 60 percent of sponsors agreed or strongly agreed that charter school boards should not be required to have a teacher majority; only 24 percent disagreed or strongly disagreed. Of the ten sponsors we visited, seven said they do not think the teacher majority rule should be a requirement for charter school boards. One sponsor said it has contributed to board turnover; another said the current teacher majority law creates a “circular” form of oversight, where the teachers oversee the director, who in turn oversees the teachers.

Most charter school sponsors and directors think charter school boards should not be required to have a teacher majority.

Charter school staff had mixed opinions regarding having a teacher majority on their school boards. From our questionnaire, 60 percent of charter school directors agreed or strongly agreed with the following statement: “Charter school boards should not be required to have a teacher majority,” while 34 percent disagreed or strongly disagreed with this statement. One charter school board member we met said he likes having teachers on the board because they understand the issues the school faces and have a vested interest in the school’s success. However, he thought that having teachers on the school’s board creates conflicts of interest. One charter school director said in the questionnaire, “While it may work in many schools, it contradicts core nonprofit and school governance norms, raises the constant threat of conflict of interest, and limits the potential of schools to draw upon much needed outside expertise. There are good reasons why no other state has adopted this provision.”

In addition to creating a conflict of interest, requiring charter school boards to be composed of a majority of teachers limits charter schools’ ability to have people with necessary expertise on the board. Charter school staff from schools we visited commented on the importance of having board members with governance and financial expertise. One director of a charter school that has had a board with and without a teacher majority thought the school’s board was stronger before it switched to a teacher majority because community business leaders were able to provide more robust financial oversight. Another charter school we visited employs few teachers so it must have a small board to maintain the teacher majority. Because of the limited space for community members or parents to serve on the board, charter school staff said it is difficult to obtain necessary or helpful expertise. Still another charter school we visited has a waiver for the teacher majority requirement and believes that, to be a strong

⁴⁰ Minnesota Office of the Legislative Auditor, *Charter School Financial Accountability* (St. Paul, June 2003), 21.

organization, it is important for the school to have the perspectives of people with organizational, legal, and higher education experience.⁴¹

Recommendations

Based on our evaluation of Minnesota and federal law, site visits, and interviews, we make the following recommendations regarding charter school conflicts of interest.

Expand and Clarify Conflict of Interest Laws

RECOMMENDATION

To improve and clarify Minnesota's conflict of interest laws for charter schools, the Legislature should:

- (1) Expand Minnesota's charter school conflict of interest laws to match federal requirements;*
 - (2) Expand Minnesota's charter school conflict of interest laws to address sponsor conflicts; and*
 - (3) Remove requirements that charter schools follow school district conflict of interest laws.*
-

Minnesota's conflict of interest provisions for charter school board members set lower standards than comparable federal requirements and those for district board members. Minnesota's charter school conflict of interest requirements should be expanded to include board members' immediate family members, as is done in federal law. In addition, both federal laws and state conflict of interest laws for school districts do not distinguish between for-profit and nonprofit organizations when determining conflicts of interest; the state's charter school conflict of interest laws should set the same standard.

Furthermore, any financial relationships between a sponsor and its charter school, other than the charter contract, should be disclosed to MDE. Because sponsors can provide useful resources for the charter schools they sponsor, we do not recommend prohibiting such relationships outright. However, these arrangements should be entered into cautiously and with full disclosure to the department. Any fee for service relationship between charter schools and sponsors should be voluntary on behalf of the school and in no way be a condition for ongoing sponsorship.

⁴¹ In addition to creating conflicts of interest and making it more difficult for schools to obtain needed expertise, there are other reasons for not requiring that teachers comprise a majority on charter school boards. For example, some charter school staff noted the importance of having board members with strong ties to the community. Other charter school staff added that teachers are already overworked in charter schools, and adding board member responsibilities may contribute to teacher burnout.

Finally, the Legislature should repeal the reference in *Minnesota Statutes* 2007, 124D.10, subd. 8(i), that requires charter schools to comply with the conflict of interest law that applies to school districts. For clarity, all conflict of interest laws that apply to charter schools should be in one place.

Remove Requirement for a Teacher Majority on Charter School Boards

RECOMMENDATION

The Legislature should amend the charter school law to remove the requirement that teachers comprise a majority of charter school board members.

In our 2003 report on charter school financial accountability, we recommended that charter school boards no longer be required to have a teacher majority. Our recommendation has not changed. The reasons for this recommendation are still valid: requiring that teachers comprise a majority of charter school board members creates opportunities for conflicts of interest and limits schools' abilities to bring needed expertise to the board. This recommendation does not prohibit a teacher majority on the board, it simply removes the requirement; charter schools that prefer having a teacher majority on their boards would still be permitted to do so.

FOLLOW-UP TO PREVIOUS OLA RECOMMENDATIONS

In 2003, OLA conducted an evaluation of charter schools' financial health and accountability. The evaluation included a number of recommendations for MDE, including:

- Implement a two-stage approval process that requires new charter schools to demonstrate that they have skilled personnel and financial systems in place before enrolling students;
- Enhance training offered to charter school board members to better meet the intent of the law;⁴² and
- Initiate a process to more clearly define the scope and nature of the sponsor's role regarding charter school financial management.⁴³

Based on our interviews and review of MDE practices, we found that:

⁴² *Minnesota Statutes* 2007, 124D.10, subd. 4(f).

⁴³ Minnesota Office of the Legislative Auditor, *Charter School Financial Accountability* (St. Paul, June 2003), 47-48.

- **The Department of Education has implemented a number of the recommendations presented in OLA’s 2003 evaluation on charter school financial accountability. However, the scope and nature of the sponsor’s role still needs to be more clearly defined.**

MDE has implemented some of the recommendations outlined above. For example, the department now conducts a pre-opening meeting in the spring with each new charter school’s director, board chair, and sponsor to ensure the school is ready to open in the coming fall. During this meeting, MDE staff verify that the school has an academic program consistent with state academic standards; the annual budget and budget amendments are approved by the charter school board; the necessary textbooks, computers, and other supplies have been ordered; and teachers are appropriately licensed. MDE staff also verify that the school’s budget is updated, that charter school staff have received required training on MDE systems, and that the charter school staff have developed appropriate business practices. During our site visits, some sponsors talked about the usefulness and importance of these meetings. One sponsor said that having this formal meeting with MDE gives sponsors more leverage to work with the charter schools they sponsor and ensure they are ready to open.

MDE has also increased the training it provides for charter school board members, directors, and sponsors. In December 2004, MDE announced that training for new charter school directors and board members would be required before a charter school could open. The training sessions cover a range of charter school issues, including charter schools’ legal responsibilities, school finance responsibilities, and governance issues. As discussed earlier, MDE staff also provide financial management training for board members and directors of new charter schools.

In our 2003 evaluation, OLA recommended that MDE “more clearly define the scope and nature of the sponsor’s role regarding charter school financial management and recommend to the Legislature any needed changes to charter school law.”⁴⁴ To address this recommendation, MDE initially required all sponsors submitting charter school applications to the department to attend sponsor training. MDE now requires training only for new sponsors, although existing sponsors may also attend. Additionally, MDE has increased its efforts to identify and share sponsor best practices by developing a series of seminars where sponsors can share best practices and learn from each other. However, as discussed earlier in this chapter, we found that the scope and nature of all sponsor responsibilities (not just those relating to financial management) need to be clarified.

OLA’s 2003 report also discussed the importance of lease aid for charter schools and the issue of facilities in general. At that time, OLA recommended that the Legislature address whether charter schools could own their school buildings. To date, the Legislature has not taken action on this recommendation. Over 85

⁴⁴ Minnesota Office of the Legislative Auditor, *Charter School Financial Accountability* (St. Paul, June 2003), 47.

percent of respondents to our charter school questionnaire agreed or strongly agreed that the lease aid law should be revised to allow charter schools to purchase school facilities.

List of Recommendations

- The Legislature should clarify the roles of the Minnesota Department of Education and sponsors with respect to charter school oversight by (1) requiring the Minnesota Department of Education to approve sponsors, and (2) increasing sponsors' authority (p. 47).
- The Minnesota Department of Education should implement standards for charter school sponsors and provide additional training to ensure that sponsors have the capacity to meet them (p. 51).
- The Minnesota Department of Education should periodically verify that charter school sponsors meet the department's standards (p. 51).
- The Minnesota Department of Education should provide financial management training tailored to board members of established charter schools (p. 52).
- The Legislature should require all new charter school board members to attend financial management training within one year of being elected (p. 52).
- To improve and clarify Minnesota's conflict of interest laws for charter schools, the Legislature should:
 1. Expand Minnesota's charter school conflict of interest laws to match federal requirements;
 2. Expand Minnesota's charter school conflict of interest laws to address sponsor conflicts; and
 3. Remove requirements that charter schools follow school district conflict of interest laws (p. 57).
- The Legislature should amend the charter school law to remove the requirement that teachers comprise a majority of charter school board members (p. 58).

Methodology and Data Limitations

APPENDIX A

In this appendix, we explain how we compared charter and district school test scores for math and reading, accounting for certain demographic characteristics. We also discuss some of the challenges and limitations of our analysis.

Our comparisons between charter and district schools are based on the Minnesota Comprehensive Assessments, Series II (MCA-II) tests given in 2007 to seven different grade levels for both math and reading. The 14 tests (7 for math and 7 for reading) had different statewide mean scores and different amounts of variation (as measured by the standard deviation—a statistical measure of the amount of variation of individual test scores). Statewide means ranged from 40 to 63 and standard deviations ranged from 12 to 20. To compare test scores across grade levels, we standardized scores by converting all test scores to the same scale with a statewide mean of 50 and standard deviation of 15. For example, if a fourth-grade student received the average score for the fourth grade reading test (57) and an eighth-grade student received an average score for the eighth grade reading test (53), the scores for both students were converted to 50 since they both received the average score for their grades.

The first comparisons we made in Chapter 2 compared the statewide and regional average converted scores for charter school students with the statewide and regional average converted scores for district school students. These comparisons included all charter schools that had students taking the tests except nine charter schools that focused on unique learning programs, such as alternative learning centers, special education schools, and online schools (listed in Table B.1). Similarly, we included all district schools except the comparable district schools with similar learning programs.

In Chapter 2 we showed that, overall, charter school students had lower MCA-II scores in math and reading than district school students. However, as we noted in Chapter 1, charter school students differ from district school students in several ways—including higher concentrations of students who (1) are from minority racial or ethnic groups, (2) are eligible for free or reduced-price lunch, and (3) have limited English proficiency. In addition, charter schools are more heavily concentrated in Minneapolis and St. Paul than district schools. While charter and district schools have similar percentages of students receiving special education services (charter schools had a slightly smaller percentage), individual schools vary. National studies have found all of these demographic characteristics to be related to test performance. Beyond these demographic differences, some charter school officials observed that charter schools may attract more students who had been struggling in district schools, which could result in lower test scores for charter school students. Alternatively, charter schools may attract high-achieving students who are interested in a charter school's distinct mission or curriculum.

To account for the potential influence of the demographic factors on test score comparisons, we compared test scores of charter school students with students from district schools with similar demographic characteristics. Specifically, we compared each charter school with district schools in the same geographic region (Minneapolis, St. Paul, the Greater Metropolitan area, and Outstate Minnesota) that enrolled similar percentages of (1) minority students, and (2) students who were eligible for free or reduced-price lunch.¹ We used 2007 demographic data from the Minnesota Department of Education (MDE) to match each charter school with district schools whose percentages of each of these two demographic groups were plus or minus 10 percentage points of the charter school's percentages. We were able to match 119 out of 153 charter schools with district schools in the same region that had similar demographics as the charter school.²

For each matched charter school, we compared the average converted score for all students taking the test in that charter school with the average converted score for all students taking the test in all of the district schools in the charter school's comparison group. We made these comparisons separately for math and reading. To determine whether the differences between the charter and district school students were statistically significant, we used a two-tailed t-test at the 95 percent confidence level. A statistically significant difference means that it is unlikely (less than a five percent chance) that we would find a difference as large as we did if in fact the charter and district school students were drawn from essentially the same population (in terms of academic achievement levels at the time of enrollment and progress while in school).³

While the results presented in Chapter 2 raise questions about charter school performance, the limitations of the data do not allow us to make definitive conclusions. By controlling for certain demographic factors, we reduce the chances that there are academic differences between charter and district school students when charter school students first enrolled in their charter schools. But we lacked the data necessary to account for other self-selection factors that may also influence test scores—such as the possibility that charter schools attract large numbers of students who have struggled in district schools. To do so would require a history of test scores for individual students so that we could measure how much progress students made in charter schools compared with district schools. Thus, if students in a particular charter school perform significantly worse on academic tests than their district school counterparts, we cannot tell the extent to which this is due to differences in school performance or differences in students' academic level at the time they first enrolled.

¹ The "Greater Metropolitan area" refers to the seven-county metropolitan region (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties) excluding Minneapolis and St. Paul. "Outstate Minnesota" refers to parts of the state outside of the seven-county metropolitan region.

² One charter school did not take the math assessment because it serves grades that are not assessed in math (ninth and tenth grades); thus, the total number of grouped charter schools taking the math assessments is 118 and the total number taking the reading assessments is 119.

³ In fact, most of the results that were significant at the 95-percent level were also significant at the 99-percent level (86 percent of the significant differences for math and 79 percent for reading).

Additional Data Analysis Tables

APPENDIX B

Table B.1: Charter Schools Omitted from Grouping Analysis by Basis for Omission and Region

Unmatched – Unique Student Demographics (25)	Unmatched – Specific Learning Programs (9)
Minneapolis El Colegio Charter School Loveworks Academy for Arts Minnesota Transitions Leadership Academy Minnesota Transitions Middle School Minnesota Transitions P.E.A.S.E. Academy Seed Academy & Harvest Prep School Watershed High School	Minneapolis Minnesota Online High School Minnesota Transitions Alternative Learning Program Minnesota Transitions Connections Academy Minnesota Transitions Virtual High School
St. Paul Avalon School Great River School St. Paul Conservatory for the Performing Arts Twin Cities Academy Twin Cities Academy High School Yinghua Academy	St. Paul Metro Deaf School Minnesota North Star Academy
Greater Metropolitan Area Arona Academy of Sobriety High New Heights School, Inc. Odyssey Charter School Partnership Academy, Inc. Sobriety High West Campus	Greater Metropolitan Area BlueSky Charter School
Outstate Minnesota Adam Abdulle Academy Discovery Public School Faribault Eci-Nompa Woonspé Charter School Pillager Area Charter School Starland Elementary School Voyageurs Expeditionary High School Worthington Area Language Academy	Outstate Minnesota EdVisions Off-Campus School Trio Wolf Creek Distance Learning

NOTES: Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region).

We were unable to match 34 charter schools with any district schools due to unique student and school characteristics. Unmatched charter schools with “unique student demographics” had students with demographics that differed markedly from those of the district schools in these regions. As a result, we were unable to identify comparable district schools. Charter schools with “specific learning programs” focused exclusively on unique programs such as online or alternative learning programs, or programs for students who participate in special education programs. These schools were also excluded from our analysis.

SOURCE: Office of the Legislative Auditor.

Table B.2: Comparable Charter and District School Student Performance, 2007 MCA-II Assessments, by Percentage of Students Eligible for Free or Reduced-Price Lunch (FRL) (Companion to Table 2.3)

	Number and Percentage of Charter Schools where:									
	Charter School Performed Better		No Significant Difference		Charter School Performed Worse		<i>Unmatched</i>		Total ^a	
MCA-II Math Assessments										
0 to less than 25 percent FRL	3	17%	5	13%	26	43%	14	41%	34	29%
25 to less than 50 percent FRL	1	6	7	18	12	20	6	18	20	17
50 to less than 75 percent FRL	0	0	8	20	9	15	6	18	17	14
75 to 100 percent FRL	<u>14</u>	<u>78</u>	<u>20</u>	<u>50</u>	<u>13</u>	<u>22</u>	<u>8</u>	<u>24</u>	<u>47</u>	<u>40</u>
Total	18	100%	40	100%	60	100%	34	100%	118	100%
MCA-II Reading Assessments										
0 to less than 25 percent FRL	5	29%	14	25%	16	36%	14	41%	35	29%
25 to less than 50 percent FRL	0	0	11	19	9	20	6	18	20	17
50 to less than 75 percent FRL	1	6	9	16	7	16	6	18	17	14
75 to 100 percent FRL	<u>11</u>	<u>65</u>	<u>23</u>	<u>40</u>	<u>13</u>	<u>29</u>	<u>8</u>	<u>24</u>	<u>47</u>	<u>39</u>
Total	17	100%	57	100%	45	100%	34	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

Table B.3: Comparable Charter and District School Student Performance, 2007 MCA-II Assessments, by Percentage of Minority Students

	Number and Percentage of Charter Schools where:									
	0 to less than 25 percent minority		25 to less than 50 percent minority		50 to less than 75 percent minority		75 to 100 percent minority		Total	
MCA-II Math Assessments										
<i>Unmatched</i>	14	--	8	--	2	--	10	--	34	--
Charter School Performed Better	4	7%	0	0%	0	0%	14	33%	18	15%
No Significant Difference	14	25	4	36	2	25	20	47	40	34
Charter School Performed Worse	<u>38</u>	<u>68</u>	<u>7</u>	<u>64</u>	<u>6</u>	<u>75</u>	<u>9</u>	<u>21</u>	<u>60</u>	<u>51</u>
Total ^a	56	100%	11	100%	8	100%	43	100%	118	100%
MCA-II Reading Assessments										
<i>Unmatched</i>	13	--	9	--	2	--	10	--	34	--
Charter School Performed Better	5	9%	0	0%	2	25%	10	23%	17	14%
No Significant Difference	28	49	5	45	4	50	20	47	57	48
Charter School Performed Worse	<u>24</u>	<u>42</u>	<u>6</u>	<u>55</u>	<u>2</u>	<u>25</u>	<u>13</u>	<u>30</u>	<u>45</u>	<u>38</u>
Total ^a	57	100%	11	100%	8	100%	43	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

Table B.4: Comparable Charter and District School Student Performance, 2007 MCA-II Assessments, by Percentage of Minority Students (Companion to Table B.3)

	Number and Percentage of Charter Schools where:									
	Charter School Performed Better		No Significant Difference		Charter School Performed Worse		<i>Unmatched</i>		Total ^a	
MCA-II Math Assessments										
0 to less than 25 percent minority	4	22%	14	35%	38	63%	14	41%	56	47%
25 to less than 50 percent minority	0	0	4	10	7	12	8	24	11	9
50 to less than 75 percent minority	0	0	2	5	6	10	2	6	8	7
75 to 100 percent minority	<u>14</u>	<u>78</u>	<u>20</u>	<u>50</u>	<u>9</u>	<u>15</u>	<u>10</u>	<u>29</u>	<u>43</u>	<u>36</u>
Total	18	100%	40	100%	60	100%	34	100%	118	100%
MCA-II Reading Assessments										
0 to less than 25 percent minority	5	29%	28	49%	24	53%	13	38%	57	48%
25 to less than 50 percent minority	0	0	5	9	6	13	9	26	11	9
50 to less than 75 percent minority	2	12	4	7	2	4	2	6	8	7
75 to 100 percent minority	<u>10</u>	<u>59</u>	<u>20</u>	<u>35</u>	<u>13</u>	<u>29</u>	<u>10</u>	<u>29</u>	<u>43</u>	<u>36</u>
Total	17	100%	57	100%	45	100%	34	100%	119	100%

NOTES: Charter schools were compared to district schools with similar student demographics and located in similar geographic regions of the state. Specifically, district comparison schools had plus or minus 10 percentage points of the charter school's percentage of minority students and plus or minus 10 percentage points of the charter school's percentage of students who qualified for free or reduced-price lunch. Schools were grouped within four geographic regions: Minneapolis; St. Paul; the Greater Metropolitan area (the seven-county metropolitan region—Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties—excluding Minneapolis and St. Paul); and Outstate Minnesota (the parts of the state outside of the seven-county metropolitan region). Thirty-four charter schools could not be matched with comparable district schools and were not included in this analysis. Percentages may not sum to 100 due to rounding.

^a Totals exclude the unmatched charter schools.

SOURCE: Office of the Legislative Auditor, analysis of Minnesota Department of Education demographic and Minnesota Comprehensive Assessments, Series II (MCA-II) assessment data.

Charter School and Sponsor Site Visits

APPENDIX C

Charter Schools (14)

Academy for Sciences and Agriculture
Adam Abdulle Academy
Cedar Riverside Community School
Face to Face Charter School
General John Vessey Jr. Leadership Academy
Great River Education Center
Higher Ground Academy
Hmong Academy
Minneapolis Academy
Minnesota New Country School
Minnesota Transitions Charter School
Naytahwaush Community School
River Heights Charter School
St. Paul Conservatory for the Performing Arts

Sponsors (10)

Augsburg College
Concordia University
Friends of Ascension
LeSueur-Henderson Public Schools
Minnesota Department of Education
Northeast Metropolitan Intermediate School District 916
Ordway Center for the Performing Arts
Pillsbury United Communities
St. Paul Public Schools
Volunteers of America

Charter School Sponsors, 2008

APPENDIX D

Department of Education

Minnesota Department of Education

Higher Education Institutions^a

Alexandria Technical College
Alfred Adler Graduate School
Augsburg College
Bethel College
Capella University
Century College
College of St. Catherine
College of St. Scholastica
Concordia University
Dunwoody College of Technology
Hamline University
North Central University
Rochester Community & Technical College
St. Thomas University

Independent School Districts

Balaton Public School District
Brooklyn Center Schools
Chisago Lakes School District
Duluth Public Schools
Faribault Public Schools
Forest Lake Area Schools
GFW Schools
Hopkins Public Schools
LeSueur-Henderson Public Schools
Milroy Schools
Minneapolis Public Schools
Northfield Public Schools
Osseo Area Schools
Redwood Area School District
Rockford Area Schools
School District 112
St. Paul Public Schools
Stillwater Area Public Schools
Waseca Schools
Winona Area Public Schools
Yellow Medicine East School District

^a One higher education organization (Crown College) sponsors a charter school that has been approved but is not yet open. This sponsor is not included in the table.

Intermediate School Districts

Intermediate School District 917

Northeast Metropolitan Intermediate School District 916

Nonprofit Organizations

Audubon Center of the North Woods

Fraser

Friends of Ascension

Germanic American Institute

Islamic Relief USA

James Ford Bell Foundation

Lao Family Community

Northwoods Foundation

Ordway Center for the Performing Arts

Pillsbury United Communities

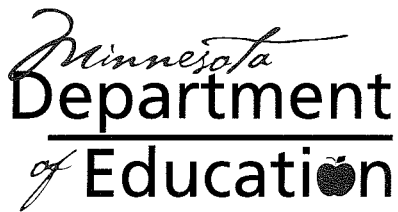
Project for Pride in Living, Inc.

Upper Midwest American Indian Center

Volunteers of America

Wolf Ridge Environmental Center

YMCA of Metropolitan Minneapolis



June 24, 2008

James Nobles
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the Office of the Legislative Auditor's (OLA) report on "Charter Schools." The Minnesota Department of Education (MDE) appreciates the thorough review of this program conducted by OLA staff, especially with regard to charter school oversight, during the development of the report.

Financial Performance of Charter Schools

MDE is very pleased that the OLA's analysis concluded that, "Based on indicators related to year-end fund balances, charter schools' financial health is comparable to that of school districts."

This is a clear reversal of the trend identified in the OLA's 2003 report on "Charter School Financial Accountability," which stated that "one-fourth of charter schools open in fiscal year 2002 had financial problems, as indicated by a negative fund balance or deficit spending combined with a low fund balance."

By contrast, in 2007, the percentage of charter schools in statutory operating debt or with a negative fund balance was actually slightly lower than the percentage of district schools in these categories. Moreover, as noted in the OLA's report, the percentage of MDE's School Finance Awards given to charter schools has risen from 0% (0 of 11 awards) in 2003 to 45% (43 of 96 awards) in 2008.

On a related note that we believe has contributed to the improvement in charter schools' financial performance, MDE appreciates the OLA's finding that, "The Department of Education has implemented a number of the recommendations presented in OLA's 2003 evaluation on charter school financial accountability."

Recommendations on Charter School Oversight

MDE is generally supportive of all of the OLA's recommendations regarding charter school oversight and intends to work with charter school stakeholders and legislators to develop legislative proposals that will address these recommendations prior to the 2009 session of the Minnesota Legislature. The following are MDE's specific responses to each of the OLA's recommendations.

Recommendation #1

The Legislature should clarify the roles of the Minnesota Department of Education and sponsors with respect to charter school oversight.

MDE finds many aspects of the OLA's proposals under "Option 1: Increase Sponsors' Authority" to be worthy of consideration and will explore with charter school stakeholders whether a consensus can be developed regarding this recommendation. Not only would Option 1 bring current practice closer to the original intent of Minnesota's charter school law, but it would clarify the line of accountability from schools to sponsors and from sponsors to the department.

However, MDE believes that for this recommendation to work in practice, first, the commissioner must expand his or her current authority to terminate a contract between a sponsor and a charter school under certain conditions, and, second, MDE must retain oversight for general compliance matters (as stated in the report), while sponsors focus on holding schools accountable for students' academic outcomes and the schools' financial management.

MDE does not believe that "Option 2: Independent Board of Authorizers" is an appropriate solution to the findings identified by the OLA. Option 2 has been adopted primarily in states that do not have the range of sponsoring options that Minnesota does and would undo our state's encouragement of innovations in education by allowing "alternative authorizers", such as institutions of higher education and nonprofit organizations, to sponsor schools.

In fact, one of these sponsors, Volunteers of America of Minnesota, was selected by the U.S. Department of Education as one of eight authorizers from around the country that were featured in its 2007 publication, *Supporting Charter School Excellence Through Quality Authorizing*. Moreover, as noted in the OLA's report, some states with an independent board of authorizers have had difficulty appropriating sufficient funding for the board to fulfill its oversight responsibilities for all charter schools in the state.

Finally, MDE strongly opposes "Option 3: Eliminate Sponsors." As noted in the OLA report, "centralizing authorizing within MDE is contrary to a basic premise of charter schools." MDE believes this recommendation would fundamentally alter the concept of "chartering" for which Minnesota has been repeatedly recognized since it enacted the nation's first charter school law in 1991. In addition, as a practical matter, MDE does not

have the capacity to serve as a sponsor for all charter schools in the state without significant increases in funding and staff.

Recommendation #2

The Minnesota Department of Education should implement standards for charter school sponsors and provide training to ensure that sponsors have the capacity to meet them. Additionally, the Minnesota Department of Education should periodically verify that charter school sponsors meet the department's standards.

Since 2004, MDE has implemented a number of projects and activities to improve the quality of sponsorship in Minnesota, primarily by disseminating information about effective sponsorship practices and then providing a variety of technical assistance and training opportunities for sponsors. (For a summary of these activities, please see the attachment to this letter.) Few other states have devoted a similar amount of time and resources to directly assisting charter school authorizers.

In addition, although MDE does review the capabilities of each sponsor as part of the department's application process for each school the sponsor authorizes, MDE does not believe it currently has authority to establish required minimum standards (beyond the basic eligibility criteria for sponsorship specified in law) and then generally approve or deny an organization's authority to sponsor based on whether they meet those standards.

MDE believes that the above recommendation has merit, especially in combination with Option 1 under the OLA's first recommendation, and would welcome rulemaking authority to develop rigorous standards for sponsorship should the Legislature choose to grant it.

Recommendation #3

The Minnesota Department of Education should provide financial management training tailored to board members of established charter schools. Additionally, the Legislature should require all new charter school board members to attend financial management training within one year of being elected.

MDE has significantly expanded its financial management training for charter school board members and directors since 2003. (For a summary of these training improvements, please see the attachment to this letter.) Although MDE currently does not provide a general finance training workshop specifically "tailored to board members of established charter schools," MDE has provided a number of specialized, targeted training sessions for individual charter school boards based on identified needs.

MDE supports the OLA's recommendation to the Legislature to require all new charter school board members attend financial management training provided by the department. Such a requirement would likely provide sufficient demand for MDE to establish a separate finance training workshop for charter school board members that is tailored to their needs.

Recommendation #4

To improve and clarify Minnesota's conflict of interest laws for charter schools, the Legislature should:

- 1) Expand Minnesota's charter school conflict of interest law to match federal requirements;*
- 2) Expand Minnesota's charter school conflict of interest law to address sponsor conflicts; and*
- 3) Remove requirements that charter schools follow school district conflict of interest laws.*

MDE wholeheartedly supports this recommendation and looks forward to working with legislators to enact it into law. During the 2008 session, the department addressed several aspects of this recommendation in the bill language it submitted to the Legislature.

Recommendation #5

The Legislature should amend charter school law to remove the requirement that teachers comprise a majority of charter school board members.

MDE stated its support for this recommendation when it was previously included in the OLA's 2003 report and subsequently included the provision in the department's proposed legislation for the 2004 session of the Legislature. While having teachers constitute a majority of a charter school board should continue to be permitted, it should not be required.

Academic Performance of Charter Schools

The OLA report found that "charter schools have increased educational choices for Minnesota students" and that, overall, these schools are serving higher percentages of students of color, children from low-income families and English language learners than district schools. This is a significant confirmation that, collectively, these schools are fulfilling an important purpose of the charter school law.

Given the fundamental "chartering" concept of increased school autonomy and flexibility in exchange for greater accountability, MDE takes very seriously the measurement of academic performance in charter schools. As part of our ongoing efforts to improve sponsorship, we will continue to emphasize to sponsors the importance of holding schools accountable for student outcomes, especially as they relate to the specific academic goals identified in a school's contract.

MDE appreciates the OLA's efforts to account for a number of demographic and other factors in comparing academic performance in charter and district schools as well as its inclusion of several cautionary statements regarding interpretation of this analysis.

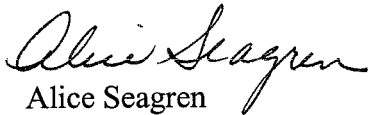
While the OLA's evaluation of academic performance certainly provides a basis for further inquiry, MDE cautions that it is difficult to infer any causal relationship between students' enrollment in a charter or district school and those students' academic results using one year's worth of data. One major limiting factor is due to the fact that the majority of charter school students come from other public schools and have attended charter schools for varying periods of time.

The department has made it a priority to provide student assessment data that will allow more sophisticated evaluations of a school's impact on student academic performance over time as MDE implements a growth model for measuring student progress on the Minnesota Comprehensive Assessments, Series II (MCA-II) exams.

For charter schools specifically, MDE has signed a "shared data agreement" with the respected Center for Research on Education Outcomes (CREDO) at Stanford University. As a result, their researchers will be provided access to the student data necessary to conduct a multi-year, longitudinal study of students' academic performance in charter schools as compared to the performance of similar students in district schools.

Again, we thank you for the diligent work of the OLA's staff in researching and writing this report. Please contact Morgan Brown, Assistant Education Commissioner, at 651-582-8627 if you have any questions or comments.

Sincerely,



Alice Seagren
Commissioner

Enclosures:

MDE Activities to Improve Charter School Sponsorship (2004-present)

MDE Program Finance Training Improvements for Charter Schools (2003-present)

Cc: Chas Anderson, Deputy Commissioner
Morgan Brown, Assistant Commissioner
Tom Melcher, Director of Program Finance

Summary of MDE Activities to Improve Charter School Sponsorship (2004-present)

Since 2004, the Minnesota Department of Education has followed a strategy for improving charter school sponsorship that has focused on developing high standards and disseminating effective practices for quality sponsoring and then providing assistance to help sponsors meet those standards.

This sponsorship improvement effort has included the following projects and initiatives:

- Developed and disseminated *Sponsoring Charters: A Resource Guide for Minnesota Charter Agencies* in collaboration with Education/Evolving, the Minnesota Association of Charter Schools and the Center for School Change. This was the first publication of its kind in the country to be developed by a state education agency in partnership with charter school stakeholders. (February 2004)
- Established and funded the Sponsor Accountability Project in partnership with the Minnesota Sponsor Assistance Network (MSAN) at Education/Evolving, which provided technical assistance and training to sponsors. (October 2004 to May 2007)
- Implemented the required pre-application training for all sponsors submitting charter school applications. (December 2004)
- Instituted the required annual “ready-to-open” meetings between MDE staff and charter school sponsors for authorized schools that were planning to open in the fall. (May 2005)
- Developed and disseminated the “Minnesota Quality Charter School Sponsor Evaluation Rubric” in partnership with MSAN. (2006)
- Developed and disseminated *Quality Charter Schooling in Minnesota: Sponsor and Charter School Accountability under the No Child Left Behind Act* in partnership with the National Association of Charter School Authorizers (NACSA). Minnesota was one of only two states selected by NACSA for this federally funded project. (March 2007)

Summary of MDE Program Finance Training Improvements for Charter Schools (2003-present)

Beginning in 2003, the Minnesota Department of Education implemented a number of finance training activities for all charter school staff, especially since there appeared to be a greater need for specialized training for charter school directors, board members and sponsors. There was also a perceived need to redesign some of the traditional finance training programs to better meet the needs of charter schools.

Fiscal Year 2003

- Personalized pre-application training was begun in the area of school finance. Specialized local programs were conducted for founding boards, as requested. There were approximately 10-15 programs conducted each year. This program continued to be offered to founding boards until FY 2007 when it was decided that a new model was needed that was consistent with a new application procedure.
- Several of the standard training programs conducted by the Program Finance Division were redesigned to more adequately reflect the unique needs of charter schools.

Fiscal Year 2004

- A new sponsor training program was initiated and conducted for two years. The program was taken over by the Minnesota Sponsor Assistance Network (MSAN) in FY 2006.
- A new charter board training program was designed and conducted by Program Finance until FY 2007, when it became evident (from enrollment) that the programs conducted by the Minnesota Association of Charter Schools (MACS) and the Minnesota School Board Association (MSBA) appeared to be meeting this training need. Training for new board members was continued as was training for officers (through MSBA).
- The Year-End Reporting program was redesigned exclusively for charter schools and remains a unique training opportunity for charter schools. It has been expanded from a single day, once-a-year offering to a program that is offered three times each spring.
- A new weeklong director's training program was initiated. It covered program, governance, finance, personnel and business management. This program was managed by the Program Finance Division until FY 2007 when the School Choice Division took over its coordination.

Fiscal Years 2006 and 2007

- Charter school board members began attending specialized Officer Training (treasurers and board chairs) through MSBA, which was facilitated by MDE staff.
- Specialized training programs were being designed and piloted with charter boards on financial oversight and internal controls. This program was offered many times to charter boards that agreed to the specialized training at their site and with participation of the full board.
- Specialized finance training was designed and conducted with a different model for all applicants of charter schools (founding board members).

- Specialized finance training was designed and conducted for all newly approved charter board members and directors (or start-up coordinators).

The difference in finance training over the past several years is not that less training is occurring as much as it is occurring in more diverse forums and in different formats. There has been a concerted effort to join with other organizations or encourage other organizations to provide management, board and sponsor training.

- MACS has regularly scheduled training programs on governance and finance issues. These workshops are well-attended by charter schools, including several schools sponsored by MDE. Some of the materials used in the workshops utilize MDE materials and personnel.
- MSBA provides finance training at least three to five times a year in addition to their large biannual programs. Some of its programs are attended by charter board members and directors. MDE personnel assist in this training and have witnessed charter personnel in attendance for the past several years.
- The Minnesota Association of School Business Officials (MASBO) is taking an ever-increasing role in providing services to board members, bookkeepers and directors of charter schools. The workshops at MASBO consistently have charter personnel in attendance.
- In addition, the Regional Service Cooperatives in Minnesota that offer computer-based services and training programs are also providing more services to charter schools and more charter school personnel are opting to take advantage of the specialized training they offer.

Finally, MDE staff continues to develop materials, tools and training programs that are exported to charter school directors, board members and sponsors on a one-on-one basis. Many of these activities are experimental in nature so that others may benefit at a later date. Also, there are the continued day-to-day experiences obtained by dozens of charter school personnel each week as they interact with MDE staff on finance issues unique to their situations. These experiences are often face-to-face and take from 30 minutes to several hours, which is an alternative form of training that is often more effective than providing a formal program in a formal setting.

Recent Program Evaluations

Forthcoming Evaluation

Oversight of Workers' Compensation Insurance Claims, January 2009
MnSCU Occupational Programs, January 2009
Personal Care Assistance Program, January 2009
MINNCOR, February 2009
Q-Comp, February 2009
Ethanol Subsidies, February 2009

Agriculture

"Green Acres" and Agricultural Land Preservation Programs, February 2008
Pesticide Regulation, March 2006

Criminal Justice

Substance Abuse Treatment, February 2006
Community Supervision of Sex Offenders, January 2005
CriMNet, March 2004
Chronic Offenders, February 2001
District Courts, January 2001

Education, K-12, and Preschool

Charter Schools, June 2008
School District Student Transportation, January 2008
School District Integration Revenue, November 2005
No Child Left Behind, February/March 2004
Charter School Financial Accountability, June 2003
Teacher Recruitment and Retention: Summary of Major Studies, March 2002
Early Childhood Education Programs, January 2001

Education, Postsecondary

Compensation at the University of Minnesota, February 2004
Higher Education Tuition Reciprocity, September 2003

Environment and Natural Resources

Watershed Management, January 2007
State-Funded Trails for Motorized Recreation, January 2003
Water Quality: Permitting and Compliance Monitoring, January 2002
Minnesota Pollution Control Agency Funding, January 2002
Recycling and Waste Reduction, January 2002

Financial Institutions, Insurance, and Regulated Industries

Liquor Regulation, March 2006
Energy Conservation Improvement Program, January 2005
Directory of Regulated Occupations in Minnesota, February 1999
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