

# **Charter Schools in Indiana: Overview, Funding, and Federal Expenditures**

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## Overview

Charter schools are publicly funded schools that have more autonomy than traditional public schools. They are often conceptualized as vehicles to promote school choice via their open enrollment policies. A “charter” establishes each school and is a performance contract that details the school’s mission, program goals, students served, methods of assessment and ways to measure success. As of the spring of 2005, 36 charter schools have been approved in Indiana. Of these, 22 schools have already begun operating, 10 are slated to open in the coming years, 2 have been closed down before they opened, and 1 has been officially closed down.<sup>1</sup> These schools are spread throughout the state, with the largest concentration located around the Indianapolis area, where 11 of the existing 22 charter schools are located.

The entity that issues the charter is known as a sponsor or authorizer. Charter school sponsors or authorizers play a critical role in the charter school system. The sponsor serves as the public’s primary formal agent for holding charter schools accountable for their performance. As a result, sponsors control the application decision process, the charter contracts, oversight of the charter schools, and renewal and revocation decisions.<sup>2</sup> In 2001, the Indiana General Assembly passed legislation creating three classes of eligible sponsors (IC 20-5.5-1-15): (1) A governing body of local education agencies; (2) A state educational institution that offers a four-year baccalaureate degree (as defined in IC 20-12-0.5-1); (3) The executive of a consolidated city (as defined in IC 36-1-2-5). In practice, these authorizers are limited to school boards, the five public universities that offer four-year degrees, and the Mayor of Indianapolis. To date, Ball

State University<sup>3</sup> the Mayor of Indianapolis, and three school districts have authorized charter schools, with over 85% of currently operating charter schools sponsored by Ball State and the Mayor’s Office (Table 1).

**Table 1. Charter Schools Authorized, Operating, and Closed by Each Indiana Sponsor**

Sponsor	Schools Currently Operating	Schools Approved But Not Yet Operating	Schools Closed	Schools Approved but Never Opened	Schools Changed to a New Sponsor	% Operating Schools
Ball State University	10	5	1	1	0	45.45%
Mayor's Office of Indianapolis	10	5	0	1	0	45.45%
Evansville-Vanderburgh School Corporation	2	0	0	0	0	9.09%
Metropolitan School District of Steuben County	0	0	1*	0	0	0.0%
Carmel-Clay School District	0	0	0	0	1	0.0%

\*One charter school that operated in 2003-2004 chose, with the support of its sponsor, to have its charter dissolved and instead operate as an exemplary dual enrollment program

In the initial charter school legislation, the number of charters sponsored by the Mayor’s Office was capped at five per year, with “unused” charters carried over to subsequent years. In 2003, SB501 and HB1001 modified the caps, with each public university and the Mayor’s Office capped at five charters per year without the ability to carry over unused charters to subsequent years. These limits on charter schools sunset on June 30, 2005.

*Recent changes to charter school legislation.* During the 2005 legislative session, Indiana Code was changed in several ways that impact charter schools. First, the Indiana Department of Education is required to include any standardized test data in the school performance reports. This applies to all schools but is considered advantageous to charter schools, many of which administer standardized tests in addition to ISTEP+.

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Second, the time during which sponsors must communicate application decisions to school organizers was increased from 60 to 75 days, relieving pressure on the part of sponsors during the application process. Third, charter schools are allowed to deliver computer- and Internet-based instruction in the manner allowed in traditional public schools. Finally, a number of revisions that impact charter school funding were included and are described below.

## **A Brief History of Charter School Funding in Indiana**

Charter school funding, much like traditional public school funding, is complex and has evolved since the passage of the state's first charter school law in 2001. Charter school funding is described in Indiana Code 20-24-7.

*Early funding mechanisms (2002-2003).* In school year 2002-2003, local education agencies (LEAs) counted their charter students in the LEA average daily membership (ADM). Then the LEA redirected state tuition support and local revenues to the charter school based on those ADM counts. The students were counted in the district of legal settlement whether the student had ever attended schools in that district. The first state payment was made in July 2002 (based on the Attorney General's Official Opinion in 2002). The first local payment was paid monthly in calendar year 2003 with the state support payments. A problem emerged, however, because many of the charter students were new to the public schools. In essence, when a student from a private school or homeschool decided to attend a charter school, the money still followed them from their home LEA, rather than their previous school. With this system, the LEA was paying for many students that they had never before educated.

In 2003, SB501 and HB1001 changed charter school funding, with the state assuming the local payment. In late 2002, charters were allowed to borrow money from the

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abandoned property fund to help with operating expenses during the last half of the 2002 calendar year (10 of the first 11 schools received \$1,443,213 in loans from this fund in February 2003). Repayment was forgiven in HB1001 in 2003.

*Revised funding mechanisms (2003-2004).* A new charter school receives state per-pupil funding based on its September ADM count and the per-pupil state funding of the LEA in which the school resides (except for Campagna Academy, which uses a weighted average of corporations where students come from). This state support is distributed monthly commencing in January (February with the delayed state payments). This first payment includes 1/12 of the total of the following: state tuition support, PrimeTime, special education, academic honors, and enrollment growth payments. Not all sources of categorical state support are applicable to each charter school. This payment does not include any local funds. To cover expenses until the first state payment, charter schools may borrow from the Charter School Advancement Account (see below). For subsequent years, the charter school receives state tuition support based on its previous year's ADM, just like an established traditional public school. State support for charter schools is capped at \$20.3 million, although the calendar year cap is scheduled to sunset in 2005.

For local funds, the charter school submits to the Department of Education (IDOE) a list of all students, their corporation of legal settlement, and the number of students attending the charter school from each county. IDOE verifies the corporation of legal settlement for each charter school student, a resource intensive process that takes several weeks. The charter school receives local tuition support (from property taxes) from each student's county of legal settlement, with the appropriate LEA general fund levying the required amount (no other local levies apply). These local payments are made to charter schools in June and December, but due to delays in reassessment these payments have not necessarily been made on a timely basis.

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As noted previously, charter schools have access to the Charter School Advancement Account (IC 20-24-7) which allows them to borrow from the common school fund to cover operational costs (other than construction) by a new charter school (non-conversion) in the second six months of the calendar year in which they are opened or a non-conversion charter school or conversion school in the second six months of a calendar year in which the school's enrollment increases by 15%. Loans are made for not more than 20 years and are paid back at a set interest rate. Currently, 12 of the 22 charter schools have loans from the CSAA.

Charter schools do not have the authority to issue levies such as those that traditional schools issue to cover capital projects, debt service, transportation, and preschool special education costs. If a charter school has these expenses, they must be funded from the general fund disbursement from the state, private funds, or other financial resources.

With few exceptions, charter schools are eligible for other state and federal funds that are available to LEAs, although some of these programs are competitive (e.g., Title I, Technology [Title IID], Reading First). Charters are also eligible for funding from the Federal Public Charter Schools Grant Program, a federal program that grants money to Indiana for competitive distribution to Indiana charter schools. Indiana charter schools have not been eligible to receive funding from the U.S. Department of Education's state charter school facilities incentive grants program because the grant is limited to states that authorize per-pupil facilities aid for charter schools. Indiana has not authorized this type of facilities funding, although this will change on July 1, 2005 (see update below).

Finally, the Burriss Laboratory School and the Indiana Academy for Science, Mathematics, and the Humanities (both located at Ball State University) are funded using the

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charter school mechanisms, although neither are charter schools and do not count against the charter school funding cap.

*Revised funding mechanisms (2005).* SB 598 authorized several changes to Indiana's system for funding charter schools. The most important change allows for the creation of a charter schools facilities fund, using the common school fund interest balance, to provide the required matching funds if the U.S. Department of Education's state charter school facilities incentive grants program is administered in the future. IDOE is also now required to pursue these and other available federal funds for charter schools, although IDOE has in the past pursued all eligible funding. Additional changes include making charter schools school corporations for the purpose of creating alternative education programs and allowing charter schools to use any school resources to prepare financial reports and audits in addition to those required by IDOE and the State Board of Accounts. This last change also allows charter school organizers to hire private auditors to compile these reports and conduct these audits.<sup>4</sup>

## Charter School Expenditures

Summary tables of charter school FY03 expenditures are included in Tables 2-4. These data are drawn from the biannual finance reports submitted by each charter school to the Division of School Finance at the Indiana Department of Education. Table 2 contains a comparison of expenditures by reporting category for both traditional and charter schools. These data are not directly comparable, given that the reporting periods for each set of data are different, but they provide a rough approximation of how schools spend their funds.

The expenditure data are comparable across the two school types, with the exception of significantly lower percent of expenditures for certified salaries and benefits in charter schools and lower percent of expenditures for purchased services and supplies/

materials in traditional schools. Although several plausible explanations for these differences exist, among the two most likely causes are the role of start-up costs and outsourcing in charter schools. For example, the 11 charter schools in existence during FY03 were engaged primarily in start-up activities that required different expenditure patterns than those that will exist when the schools have completed these start-up activities.

**Table 2. Comparison of Charter and Traditional Public School Expenditures by Category**

Source of Funds	Certified salaries	Non-certified salaries	Other salaries	Benefits	Purchased services	Supplies materials	Capital outlay	Other objects
Charter	23.7%	12.0%	0.4%	9.2%	27.7%	7.8%	10.9%	8.4%
Traditional	36.6%	12.1%	1.0%	17.0%	10.7%	4.7%	9.0%	9.1%

Note. Charter expenditures are for fiscal year 2003. Traditional school expenditures are for calendar year 2003.

**Table 3. Charter School Expenditures for Fiscal Year 2003**

Source of Funds	Certified salaries	Non-certified salaries	Other salaries	Benefits	Purchased services	Supplies materials	Capital outlay	Other objects	Total	% of Total
General Fund	2,437,038	1,194,431	25,062	974,100	2,115,444	308,767	341,487	477,187	7,873,517	69.8%
Transportation	0	0	0	0	993	220	0	0	1,213	0.0%
Other	4,916	0	19,249	0	378,493	276,854	591,857	247,694	1,519,063	13.5%
State	0	12,324	0	4,717	0	0	0	0	17,041	0.2%
Federal	231,394	147,838	2,920	54,158	627,785	292,373	294,943	219,995	1,871,406	16.6%
Total Funds	2,673,348	1,354,593	47,231	1,032,975	3,122,715	878,214	1,228,287	944,876	11,282,240	100.0%
% of Total	23.7%	12.0%	0.4%	9.2%	27.7%	7.8%	10.9%	8.4%	100.0%	

Note: Rows or columns may not sum to total because of rounding.

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**Table 4. Charter School Per Pupil Expenditures for Fiscal Year 2003**

Source of Funds	Certified salaries	Non-certified salaries	Other salaries	Benefits	Purchased services	Supplies materials	Capital outlay	Other objects	Total	% of Total
General Fund	1,988	974	20	795	1,725	252	279	389	6,422	69.8%
Transportation	0	0	0	0	1	0	0	0	1	0.0%
Other	4	0	16	0	309	226	483	202	1,239	13.5%
State	0	10	0	4	0	0	0	0	14	0.2%
Federal	189	121	2	44	512	238	241	179	1,526	16.6%
Total Funds	2,181	1,105	39	843	2,547	716	1,002	771	9,202	100.0%
% of Total	23.7%	12.0%	0.4%	9.2%	27.7%	7.8%	10.9%	8.4%	100.0%	

Note: Rows or columns may not sum to total because of rounding.

## Charter School Federal Grant Expenditures

Indiana charter schools are eligible to receive funding from the federal Public Charter Schools Program, which is administered by the U.S. Department of Education.

Although the PCSP has been in existence for nearly a decade, the Indiana Department of Education first received a three-year PCSP grant in 2001 and received a second three-year grant in 2004. At the time of this report, the Indiana PCSP grant was nearing the end of the first year of the second third-year funding cycle.

For the 2004-2007 grant period, IDOE set the range for planning grants from \$25,000-\$75,000 (awarded for 12-month periods) and \$75,000-\$175,000 for implementation grants (awarded for 24-month periods). Decisions on PCSP grant applications, which are subject to a panel review, are based on the quality of the grant application, school enrollment, perceived need of the school, and previous use of planning grant funds (for implementation grants). These criteria are consistent with those used in other states to award PCSP funds to charter schools.<sup>5</sup>

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Tables 5 and 6 contain summaries of PCSP grant fund expenditures by school for fiscal year 2003. For FY03, nine schools received PCSP funds, with eight charter schools expending PCSP planning grant funds<sup>6</sup> and eight schools expending PCSP implementation grant funds.<sup>7</sup> Table 5 contains expenditure information for the \$25,000 planning grants, and Table 6 contains expenditure information for the \$125,000 implementation grants. Although individual charter schools spent PCSP funds in a number of ways, a few patterns emerge from the data. With respect to planning grants, nearly 30% of planning grant funds were spent on purchased services (5 of 7 schools reporting expenditures) and equipment (5 of 7 again), 17% was spent on salaries and stipends (3 schools), and 14% on supplies and materials (3 schools).

With respect to implementation grants, 46% of funds were spent on purchased services (4 of 6 schools), 24% of funding was spent on equipment (3 of 6), 16% was spent on supplies and materials (5 of 6), and 12% was spent on salaries and stipends (1 of 6). However, as can be seen in Tables 5 and 6, the categories of expenditures vary widely from school to school. For example, Campagna Academy expended nearly 100% of its implementation grant funds on purchased services, Christel House Academy spent 100% on equipment and supplies and materials, and Irvington Community School spent 72% on salaries and stipends. Table 7 contains a comparison of PCSP expenditures by type of grant.

Although detailed data are not currently available on how charter schools in other states have expended PCSP funds, the 2004 evaluation of the PCSP program by Finnigan et al. provides insight into how these schools spend their funds according to broad categories. During FY02, nearly 90% of PCSP start-up grant recipients used the funds on instructional materials (vs. 100% in Indiana in FY03), nearly 80% spend funds on professional development and computer materials (vs. 56% and 67%, respectively, in Indiana), just over 60% spent funds on consultants (vs. 56% in Indiana), just over 50% reported using the funds on staff salaries (vs. 56% in Indiana), and 50% used the fund-

ing for recruiting and public relations (vs. 89% in Indiana). Between 40 - 50% of the schools used the funds on renovations or renting/leasing (vs. 44% in Indiana). During this round of funding, Indiana charter schools spent their PCSP funds similarly to schools participating in the entire federal program, with Indiana schools spending more on recruiting and public relations and slightly less on professional development and computer materials.

**Table 5. PCSP Planning Grant Expenditures by Category**

	Confs	Employee Benefits	Equipment	Insurance	Marketing	Purchased Services	Salaries/ Stipends	Supplies & Materials	Training	Travel	Totals
Campagna Academy Charter School	0	0	0	0	0	15,000	10,000	0	0	0	25,000
Christel House Academy	0	0	14,000	0	11,000	0	0	0	0	0	25,000
Community Montessori Charter School	0	1,263	0	0	0	7,344	16,082	0	0	0	24,690
Flanner House Elementary School	2,272	0	5,200	0	0	0	0	17,528	0	0	25,000
Irvington Community School	0	0	0	0	0	0	0	0	0	0	0
New Community School	0	0	0	0	0	0	0	0	0	0	0
Options Charter School	0	0	6,739	0	0	10,640	3,000	2,116	2,500	0	24,995
Signature School	0	0	20,729	0	0	2,500	0	0	2,357	0	25,586
Timothy L. Johnson Academy	0	0	1,842	0	2,721	14,870	0	4,983	0	677	25,093
<b>Column Total</b>	<b>2,272</b>	<b>1,263</b>	<b>48,510</b>	<b>0</b>	<b>13,721</b>	<b>50,354</b>	<b>29,082</b>	<b>24,626</b>	<b>4,857</b>	<b>677</b>	<b>175,363</b>
<b>% of Total</b>	<b>0.01</b>	<b>0.01</b>	<b>0.28</b>	<b>0.00</b>	<b>0.08</b>	<b>0.29</b>	<b>0.17</b>	<b>0.14</b>	<b>0.03</b>	<b>0.00</b>	<b>1.00</b>

Note: Rows or columns may not sum to total because of rounding.

**Table 6. PCSP Implementation Grant Expenditures by Category**

	Confs	Employee Benefits	Equipment	Insurance	Marketing	Purchased Services	Salaries/ Stipends	Supplies & Materials	Training	Travel	Totals
Campagna Academy Charter School	0	0	0	0	0	122,166	0	2,834	0	0	125,000
Christel House Academy	0	0	63,600	0	0	0	0	61,400	0	0	125,000
Community Montessori Charter School*	0	0	34,854	9,016	0	54,355	16,193	35,282	300	0	150,000
Flanner House Elementary School	0	0	17,700	0	0	83,752	0	22,857	690	0	125,000
Irvington Community School	0	8,464	0	0	0	26,756	89,780	0	0	0	125,000
New Community School	0	0	34,918	25,256	1,825	44,981	13,650	16,707	6,869	4,954	149,161
Options Charter School	0	0	0	0	0	0	0	0	0	0	0
Signature School	0	0	102,297	0	0	0	0	22,703	0	0	125,000
Timothy L. Johnson Academy	0	0	0	0	0	112,885	0	12,022	0	0	124,908
<b>All data</b>	<b>0</b>	<b>8,464</b>	<b>253,369</b>	<b>34,272</b>	<b>1,825</b>	<b>444,897</b>	<b>119,623</b>	<b>173,806</b>	<b>7,859</b>	<b>4,954</b>	<b>1,049,069</b>
<b>% All data</b>	<b>0.00</b>	<b>0.01</b>	<b>0.24</b>	<b>0.03</b>	<b>0.00</b>	<b>0.42</b>	<b>0.11</b>	<b>0.17</b>	<b>0.01</b>	<b>0.00</b>	<b>1.00</b>
% minus Community and New Community	0.00	0.01	0.24	0.00	0.00	.46	0.12	0.16	0.00	0.00	<b>749,908</b>

\*Community Montessori Charter School and New Community School are excluded from calculations of category percents because of inability to disaggregate the information into planning and implementation grants.

Note: Rows or columns may not sum to total because of rounding.

**Table 7. Percentages of Total Expenditures per Category for PCSP Planning and Implementation Grants**

	Confs	Employee Benefits	Equipment	Insurance	Marketing	Purchased Services	Salaries/ Stipends	Supplies & Materials	Training	Travel
\$25,000 Planning Grant	0.0130	0.0072	0.2766	0.0000	0.0782	0.2871	0.1658	0.1404	0.0277	0.0039
\$125,000 Implementation Grant	0.0000	0.0113	0.2448	0.0000	0.0000	0.4608	0.1197	0.1624	0.0000	0.0000

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## Endnotes

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1. One charter school that operated in 2003-2004 chose, with the support of its sponsor, to have its charter dissolved and instead operate as an exemplary dual enrollment program
2. Eckes, S., & Plucker, J. A. (2004). *Charter revocations: Legal considerations concerning procedure*. Bloomington, IN: Center for Evaluation and Education Policy.
3. Plucker, J. A., Simmons, A. B., Eckes, S., Rapp, K. E., & Benton, S. A. (2004). *University sponsorship of charter schools in Indiana*. Bloomington, IN: Center for Evaluation and Education Policy.
4. After these most recent changes are implemented, charter schools will be eligible for most federal and state funding available to traditional public schools. One exception is a state technology grant that requires a tax base to determine the amount of funding provided to each corporation. The Indiana School for the Blind and the Indiana School for the Deaf are able to apply for this funding due to authorizing legislation passed in the General Assembly.
5. Finnigan, K., et al. (2004). *Evaluation of the public charter schools program: Final report*. Washington, DC: SRI International.
6. All but Irvington Community School. However, New Community School did not report expenditures related to the two distinct grants separately, so that school's expenditures are included in Table 6 but are not included in the totals for Tables 5 and 6.
7. All but Options Charter School.



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