Fostering Charter School Growth Through State Loan Programs

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EXECUTIVE SUMMARY

Finding funds to build and renovate facilities is a major hurdle for public charter schools because most state laws do not provide charter schools with the full amount of state and local funding that other public schools receive. Although an increasing number of states are passing laws to address charter school facility funding gaps, inequities persist in every state, hindering the growth of some of the country's highest performing schools.

To help close these funding gaps, thirteen states and the District of Columbia (D.C.) have statutorily enacted a charter school loan program. Of these, ten are funded and remain active—California, D.C., Florida, Illinois, Louisiana, Nevada, New Mexico, South Carolina, Tennessee, and Utah. Four states—Arkansas, Colorado, Indiana, and Rhode Island—have authorized a charter school loan program but do not currently provide funding. Across the country, at least 355 charter schools have received more than $211 million in direct loans from these funds, and more than $146 million in funds remains accessible for other charter schools.

To produce this snapshot, the authors conducted a comprehensive review of state statutes and regulations to create a summary of loan programs, including such matters as funding levels, interest rates, repayment terms, and allowable uses. State officials from state departments of education, treasury departments, finance authorities, and state charter school organizations also verified the accuracy of this information.

This is the fourth report in a series of State Policy Snapshots that provides the charter school community and policy makers with a more complete picture of the various types of loan funds designed to help charter schools achieve more favorable financing conditions for their facility acquisitions.

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Below is a summary of the charter school loan fund landscape by state:

STATE	FUNDING STATUS
Arkansas	In 2013, Arkansas established a charter school facility loan program but never appropriated funding for it.
California	In 2001, California established a Charter School Revolving Loan Program. $20 million is currently available in the fund.
Colorado	In 2011, Colorado established the Charter School Matching Moneys Loan Program. Charter schools have never accessed the fund, and it has been discontinued.
District of Columbia	In 2003, D.C. established a Charter School Direct Loan Program. The available balance is $28.3 million.
Florida	In 2017, Florida established the Schools of Hope Loan Fund. The available balance is $100 million.
Illinois	In 2016, Illinois created a Charter Schools Revolving Loan Fund. New charter schools are eligible to receive $750 per student from the loan fund.
Indiana	In 2015, Indiana established the Charter School Facility Assistance Program and allocated $50 million in funding. Funding is not currently available.
Louisiana	In 2012, Louisiana established the Charter School Start-Up Fund. As of May 2022, the available balance is $18,780.
Nevada	In 2013, Nevada established a Charter School Revolving Loan Fund with a one-time state appropriation of $750,000. In 2021, Nevada created another $15 million loan program, and funding remains available.
New Mexico	In 2022, New Mexico established the Charter School Facility Revolving Fund with a $10 million appropriation.
Rhode Island	In 2012, Rhode Island established a charter school loan program to provide interest-free loans if federal startup funds are either unavailable or fully spent.
South Carolina	In 2012, South Carolina established a Charter School Facility Revolving Loan Program. Currently, $1.1 million is available in the fund.
Tennessee	In 2017, Tennessee established a Public Charter School Facilities Program, currently funded at $22 million.
Utah	In 2011, Utah established a revolving loan program. The available balance is approximately $1.5 million.

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WHAT ARE CHARTER SCHOOL LOAN PROGRAMS?

Charter school loan programs provide loans and/or grants to charter schools to cover various expenses, including those related to charter school facilities. State departments of education, another state entity such a state facility authority or board of education, or an independent third-party manager administer state loan programs.

Loan programs provide significant cost-effective benefits to charter schools and taxpayers. First, they provide charter schools with access to capital at interest rates well below prevailing market rates, providing significant financial savings to schools and taxpayers over the term of the loan. Second, loan programs can help leverage more favorable terms from other public financing institutions and allow schools to obtain private sector funds that otherwise may not be available. Most important, they redirect public operational funds back into the classroom, where they belong.

The design of charter school loan fund programs varies from state to state. Key features to examine in relation to these programs include the following:

- **Revolving Loan Programs.** Six states (California, Illinois, Nevada, New Mexico, South Carolina, and Utah) have revolving loan programs that self-replenish by using interest and principal payments from one loan to make new loans to other charter schools.
- **School Eligibility.** Some states, such as Indiana and South Carolina, allow all charter schools to tap into loan programs, while others, such as California, Florida, Illinois, Louisiana, New Mexico, and Utah, set eligibility requirements based on such factors as the age of the school, the school's performance results, the school's poverty rates, and the location of the school.
- **Use of Funds.** States such as Florida, Illinois, Louisiana, and Rhode Island limit the use of funds to finance new school startup costs such as recruitment of staff, purchasing equipment and materials, and facility planning. Others, such as New Mexico, South Carolina, and Tennessee, limit expenditures to capital needs.
- **Amount of Loans.** States use a variety of approaches to calculate the level of funding for each school. For example, Illinois and Nevada set a loan amount using student enrollment, D.C. uses the total project cost to calculate a loan amount, and Florida uses school poverty and performance data.
- **Cost of Loans.** All 13 states and D.C. provide loans well below the prevailing market rates. For example, Louisiana and Rhode Island offer interest-free loans, while California, D.C., and South Carolina set loan costs based on each school's capital project.
- **Term.** Most loans are for a short duration, with repayment terms ranging from the first three years of operation, as in Nevada and Tennessee, to up to five years in California, Illinois, and Louisiana, and as much as 15 years in Arkansas and South Carolina.
- **Security.** States such as Arkansas, California, and D.C. encourage schools to use loan programs to leverage private capital investment, credit enhancement, and loan guarantees.

Because public charter schools do not have access to the financing tools that public school districts use for their facilities, they cannot grow in quantity and improve in quality without solving the challenge of having to spend money *on* classrooms instead of *inside* them. Charter school loan programs offer another tool to address this challenge by helping to alleviate the costs, time, and energy educators spend to secure financing for school buildings.

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APPENDIX

STATE	SUMMARY OF STATE LAW
Arkansas	The Open-Enrollment Public Charter School Facilities Loan Fund was established in 2013. Uses: Limited to use in an open-enrollment public charter school in its first year of operation, its first year operating under a new license, its first year adding a new campus, or in any year a grade is added at any campus. Status: Never funded Citation: Ark. Code Ann. Title 6. Education §6-23-902
California	Under California law, the Charter School Revolving Loan Program provides below-market loans up to a total of $250,000 and may only be used to meet the purposes of the granted charter application. The terms of the loan mirror the length of the charter petition, which must be five years or less. Interest rates vary by school project. Priority is given to schools in their first year of operation, with secondary priority given to schools in their second year of operation. The California School Finance Authority manages the program. As of June 2021, the state has awarded $56.4 million to 243 public charter schools, with an average interest rate of 0.94%. $20 million is currently available. Uses: To meet the purposes of the charter (any startup costs, including facilities); priority given to creative uses of the funds such as loan guarantees or other types of credit enhancements. Status: Active Citation: Cal. Educ. Code 41365 Loan Application Information
Colorado	Colorado law created the Charter School Matching Moneys Loan Program in 2011. Loan amounts cannot exceed 50% of the required matching moneys for capital projects. Matching moneys may include voter-approved, multiple-fiscal-year debt or other financial obligations; utility cost savings; gifts, grants, donations, or any other means of financing permitted by law. Interest rates are equal to the state interest rate paid on any lease purchase agreement approved by the Public School Capital Construction Assistance Board, which managed the Matching Moneys Loan Program. Uses: To assist eligible charter schools in obtaining the matching moneys required for an award of financial assistance pursuant to the rules and guidelines of the public school capital construction assistance board. Status: Colorado Treasury staff determined that charter schools never used this program and discontinued it. Citation: Colorado Rev. Stat. § 22-43.7-110.5

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District of Columbia	D.C.'s Direct Loan Fund for Public Charter School Improvement was established in 2003 to provide flexible loan capital for charter school facilities. Loans are capped at $2 million per school or 20% of the project cost, with interest rates and terms varying by project. These loans are frequently used in conjunction with debt in larger projects and may function as gap financing in transactions where little equity is available. The Office of Charter School Financing and Support manages the program. As of May 2021, the Direct Loan Program has disbursed close to $67 million in direct loans to 49 public charter schools, leveraging more than $492 million in additional funding for school facilities. The available Direct Loan Fund balance is $28.3 million. Uses: Construction, purchase, renovation, and maintenance of charter school facilities. Status: Active *Citation: D.C. Code § 38-1833.02* *Loan Application Information*
Florida	Florida law established a Schools of Hope Revolving Loan Fund for charter schools operated by a school of hope operator. Hope schools serve students from one or more persistently low-performing schools, or who reside in a Florida Opportunity Zone or within a five-mile attendance zone of a persistently low-performing school, or who attend a Title I eligible school. Building Hope is the third-party administrator for the fund. Interest rates on loans must be lower than the interest rate paid on moneys held in the loan fund or 50% of the maximum interest rate established by Florida state law. A charter school is not eligible for funding if the school operates in a school district facility or if it is directly or indirectly operated by a school district. Appropriations made to the revolving loan fund are available for five years. Since 2017, $100 million has been appropriated. Building Hope currently administers the program, and close to $60 million remains available. Uses: School building construction and renovation needs and expenses related to the startup of a new charter school or school expansion. Priority is for new charter schools with urgent facility needs. Status: Active *Citation: Florida Code Ann. § 1001.292* *Loan Application Information*

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Illinois	Illinois law established the Charter Schools Revolving Loan Fund to provide interest-free loans to charter schools. A charter school may receive only one loan and must repay it within the initial term of the charter (which is a maximum of five years). Originally, schools could receive up to $250 per student. In 2016, this amount increased to $750 per student. The State Board of Education manages the program. Uses: For startup costs of acquiring educational materials and supplies, textbooks, furniture, and other equipment needed in the initial term of the charter school and for acquiring and remodeling a suitable physical plant. Status: Dormant because the fund is available only to schools in their first contract term. Therefore, approximately 98% of existing schools are ineligible for the fund. *Citation: 105 Ill. Comp. Stat. 5. Section*
Indiana	In 2015, the legislature established the Charter School Facility Assistance Program and allocated $50 million in funding. The loan program gave each charter (and Innovation Network school) an advance of up to $5 million over 10 years at a 1% interest rate. The state awarded 38 charter schools a total of $45 million. The Indiana Department of Education manages the program. Uses: Capital improvements for the school, including the renovation or expansion of a facility, or for debt or lease payments owed on a facility, or for advances from the common school fund or to purchase technology. Status: No Longer Funded *Citation: Indiana Code Chapter 20-24-12*
Louisiana	Louisiana created the Louisiana Charter School Start-Up Fund, which provides zero-interest loans of up to $100,000 for terms of up to three years for charter schools within their first five years of operation. The State Board of Elementary and Secondary Education manages the program. While the law gives administrative authority over the program to the State Board of Elementary and Secondary Education, in 2012, the State Board contracted with the State Department of Education to manage this program. Since that time, the State Department of Education has awarded $1.06 million to 12 charter schools. As of May 2022, $18,780 remains in the fund. Continued activity of the program will depend on additional appropriations to the fund. Uses: To purchase tangible items such as equipment, technology, instructional materials, and facility acquisition, upgrade, and repairs. Status: Active *Citation: La. Rev. Stat. Ann. § 17:4001* *Loan Application Information*

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Nevada	Nevada law established a state-sponsored Account for Charter Schools known as the revolving loan fund. The legislature made a one-time state appropriation of $750,000 in 2013 to offer loans at or below market rate. The maximum loan amount is the lesser of $500 per pupil or $200,000. Repayment terms are within three years, in installments of equal payments. The State Public Charter School Authority manages the program. In 2021, Nevada created another $15 million loan program, and funding remains available. Uses: To prepare the charter school for its first year of operation, improve a school in operation, and fund the recruitment of teachers and pupils to the new charter school. Status: Active *Citation: Nev. Rev. Stat. § 388A.432 to § 388A.438* *Loan Application Information*
New Mexico	In March 2022, the governor signed a bill to establish the Charter School Facility Revolving Fund with a $10 million appropriation. Only schools with at least one renewal are eligible to use the fund. The New Mexico Finance Authority administers the loan fund. Uses: For the purchase, construction, expansion, or renovation of facilities, or to pay off lease-purchase agreements. Status: New *Citation: House Bill 43 (2022 Regular Session)*
Rhode Island	Rhode Island law provides interest-free loans to charter schools if federal startup funds are either unavailable or fully spent. A loan cannot exceed $150,000 for a single new charter school, and it must be repaid in equal monthly installments within five years. The state is not currently funding this program. The Rhode Island Department of Elementary and Secondary Education managed the program. Uses: Startup costs for charters. Status: Never Active *Citation: R.I. Gen. Laws § 16-77.1-4*

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South Carolina	South Carolina law created the Charter School Facility Revolving Loan Program to provide charter schools with low-interest loans (with the rates varying by school) to repay within 15 years. The State Treasurer manages the program. As of April 2021, one public charter school has received a loan of $500,000 through the program. Currently, $1.1 million is available in this fund. Uses: Construction, purchase, renovation, and maintenance of public charter school facilities. Status: Active *Citation: S.C. Code Ann. § 59-40-175* *Loan application information*
Tennessee	In 2017, the Tennessee legislature established a Public Charter School Facilities Program to reward grants and loans for qualifying capital projects. The Tennessee Commissioner of Education manages the program. In FY 2023, the legislature approved $16 million in recurring dollars and $16 million in nonrecurring dollars for the fund, bringing total recurring funding to $22 million. The State Department of Education has not yet announced how it will distribute these funds. The State Department of Education tracked loan activity between 2017 and 2020, and 90% to 95% of charter schools accessed these funds. Data is not available for FY 2021 and FY 2022; however, recent use is estimated to track with historical use. Uses: the acquisition of real property upon which to build school facilities; portable school facilities; general capital improvements to existing and available buildings; costs associated with the purchase or lease of underutilized or vacant property; lease or mortgage payments; debt service for existing capital outlay projects; reimbursement of renovations; and future capital outlay projects. Status: Active *Citation: Tenn. Code Ann. § 49-13-144* Charter School Facility Fund Application

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Utah	In 2011, Utah established a charter school revolving loan fund to provide loans to charter schools. The interest rate is at least 1.75%, with terms up to five years. Priority is for new charter schools and those with urgent facility needs. A new school is authorized to receive a minimum of $300,000 and a maximum of $400,000 (based on enrollment and eligible funds), distributed over three years. The available balance in the fund is approximately $1.5 million. The Utah State Charter Board manages the program. Uses: To meet school building construction and renovation needs; expenses related to the startup of a new charter school; and the expansion of an existing charter school. Loans may also cover the cost of planning expenses; constructing or renovating a school building; equipment and supplies; and other startup expenses. Status: Active *Citation: Utah Code Ann. § 53F-9-203* *Loan Application Information*

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