2006-2007

Public School Academies

Michigan Department of Education

Report to the Legislature

MICHIGAN STATE BOARD OF EDUCATION 1849

MICHIGAN Department of Education

DECEMBER 2007

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Web-posted appendices may be downloaded at www.michigan.gov/charters

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GLOSSARY OF ACRONYMS

These terms are explained the first time they are used in the text. They are listed here for easy reference when encountered later.

ACT: American College Testing

AYP: Adequate Yearly Progress

BMCC: Bay Mills Community College

CEPI: Center for Educational Performance and Information

CMU: Central Michigan University

COP: Cheboygan-Ontonogan-Presque Isle

CSAS: Charter School Administration Services

ELA: English Language Arts

EMU: Eastern Michigan University

ESP: Education Service Provider

FID: Financial Information Database

FOIA: Freedom of Information Act

FSU: Ferris State University

GVSU: Grand Valley State University

ISD: Intermediate School District

LEA: Local Education Agency (School District)

LSSU: Lake Superior State University

MCCSA: Michigan Council of Charter School Authorizers

MCLA: Michigan Compiled Laws Annotated

MEAP: Michigan Educational Assessment Program

MDE: Michigan Department of Education

MME: Michigan Merit Exam

NHA: National Heritage Academies

NMU: Northern Michigan University

NCLB: No Child Left Behind

OU: Oakland University

PSA: Public School Academy (Charter School)

RESA: Regional Education Service Agency

SBE: State Board of Education

SDA: Strict Discipline Academy

SVSU: Saginaw Valley State University

EXECUTIVE SUMMARY

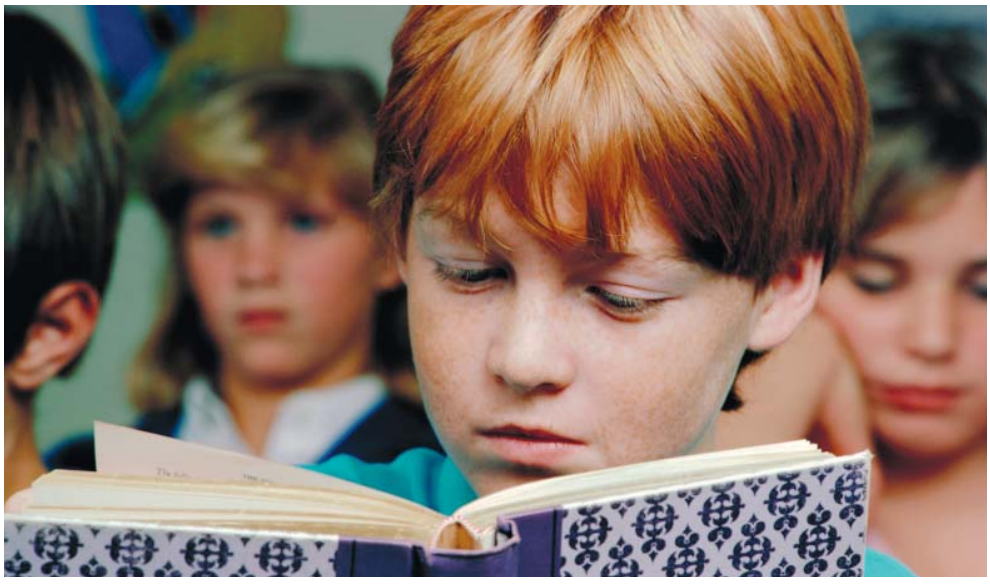
The 2006-07 school year saw slow growth in the number of Public School Academies (PSAs), moderate growth in students served, maturation of oversight systems, and increased attention to the quality of schools.

Five PSAs opened and one closed in 2006-07, while another five opened and four closed at the beginning of 2007-08. The resulting 230 charter schools now serve 5.7% of Michigan's learners – up from 5.3% at the time of the last report. The schools are located within the boundaries of 104 Local Education Agencies (LEAs). But the vast majority – serving 73% of PSA students – are concentrated in 30 mostly urban districts in the Lower Peninsula.

PSA students continue to be disproportionately urban, minority and poor. Over half of PSA students are free/reduced lunch eligible, compared to 34% of non-PSA students across the state. Fewer PSA students (8.9%) report disabilities, compared to 14.6% in non-PSA traditional districts.

Academically, charter elementary and middle schools report encouraging academic results. Consistently, more PSA grade 3-8 students score proficient on the Michigan Educational Assessment Program (MEAP) tests than do their counterparts in the geographic districts in which the PSAs are located. In fact, African American and Hispanic subgroups approach or match statewide performance levels of their peers in all non-PSAs. Charter high schools, however, are struggling to support their students to meet the newly rigorous High School Content Expectations.

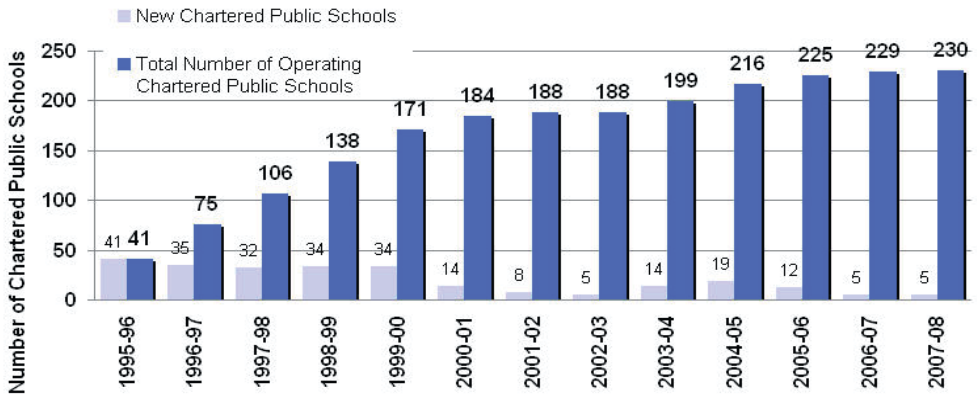
Financially, PSAs continue to receive less revenue than both the districts in which they are located ($2,289 less per-pupil) and the non-PSA statewide average ($923 less per-pupil). Accordingly, they carry smaller fund balances and – because they pay for facilities from operating funds and pay teachers less – commit smaller percentages of their expenses to instructional purposes.



MICHIGAN PUBLIC SCHOOL ACADEMIES

Since the 2005-06 data last reported to the Legislature in November 2006, a full school year was completed in 2006-07, and a new one (2007-08) has begun. During that time, five PSAs have closed: Benjamin Carsen Academy closed for the 2006-07 school year; Academy of Michigan, Gateway Academy, Lakeshore Academy, and Sankofa Shule closed for the 2007-08 school year. Five new PSAs opened for the 2006-07 school year and five more opened in the fall of 2007, including two Strict Discipline Academies (SDAs). An additional two (including one SDA) have received charters and are expected to open mid-year 2007-08. These are listed in the table on the next page. Taken together, **Figure 1** shows that the additions and closures of the past two school years netted 229 schools in 2006-07 and 230 at the beginning of 2007-08.

Figure 1: Chartered Public School Districts Operating by Year



Note: Authorizers may establish charter public schools under any of three sections of Michigan law:

1. *Part 6A of the revised school code (MCLA 380.501 – 508) permits 150 university-authorized general PSAs and an unlimited number of PSAs authorized within their geographical boundaries by community colleges, intermediate school districts, or local school districts.*
2. *Part 6C of the revised school code (MCLA 380.521 – 529) permits 15 Urban High School Academies to be authorized within the city of Detroit by universities.*
3. *Public Act 23 of 1999 (MCLA 380.1311b – 1311e) permits an unlimited number of Strict Discipline Academies organized to serve suspended or expelled students, or those placed by a court or juvenile agency.*

New Public School Academies

Public School Academy	Located in	Authorized by	Ed Service Provider	Opened In
Taylor Exemplar Academy	Taylor	Bay Mills CC	National Heritage	2006
David Ellis Academy West	Redford	Bay Mills CC	Bardwell Group	2006
Victory Academy	Inkster	Bay Mills CC	Global Education	2006
Wavecrest Career Academy	Holland	Ottawa ISD	Self-managed	2006
Academic & Career Ed Academy	Midland	Midland ESA	Education & Training	2006
ACE Academy (SDA)	Detroit	Central Michigan U	EdTec Inc.	2007
Clara B. Ford (SDA)	Dearborn Heights	Ferris State U	EdTec Inc.	2007
Flagship Academy	Detroit	Central Michigan U	National Heritage	2007
International Academy of Saginaw	Saginaw	Bay Mills CC	SABIS	2007
Traverse City College Prep Academy	Traverse City	Bay Mills CC	Leona Group	2007
Vista Meadows (SDA)	Dearborn	Bay Mills CC	EdTec Inc	Not yet open
Infinity Institute	Highland Park	Highland Park Schools	EdTec Inc	Not yet open

Half of the new PSAs (three in 2006-07, two in 2007-08 and another SDA anticipated mid-year) are authorized by Bay Mills Community College, a state-wide authorizer, under its federal tribal community college charter. University authorizers replaced one PSA under their cap in 2007-08, and added two SDAs. The remainder of the new schools in operation were chartered by Intermediate School District (ISD) authorizers (two in 2006-07). An LEA has chartered one PSA still expecting to open during the 2007-08 year.

Note: *Wherever comparisons are possible, charts in this report display not only PSA and non-PSA aggregates or averages (which can be summed to make up the state-wide total) but also "host" district numbers made up of the 17 local districts which have 3 or more PSAs within their boundaries (and which should be understood as a subset of "non-PSAs") for baseline comparisons.*

This year, the "host" districts include:
Ann Arbor, Benton Harbor, Dearborn, Detroit, Flint, Grand Rapids, Hamtramck, Highland Park, Inkster, Jackson, Lansing, Muskegon, Pontiac, Port Huron, Saginaw, Southfield, Wayne-Westland

The net gain of five PSAs over the last two years represents minor growth in number of schools. The number of students served by PSAs continues to grow as existing schools amend their charters to add grades or expand enrollment. MDE's fall 2006 count of 98,667 represented a 7.7% gain over fall 2005 enrollment. One in sixteen Michigan students now attends a PSA—5.7% of the total—as shown in **Figure 2**, up from 5.3% the year before. The latest comparable national figures in **Figure 3** indicate that in 2006-07, only four other jurisdictions—Washington D.C., Arizona, Colorado, and Delaware—matched or exceeded Michigan's proportion of students learning in charter schools.

Figure 2: PSA Students by Year

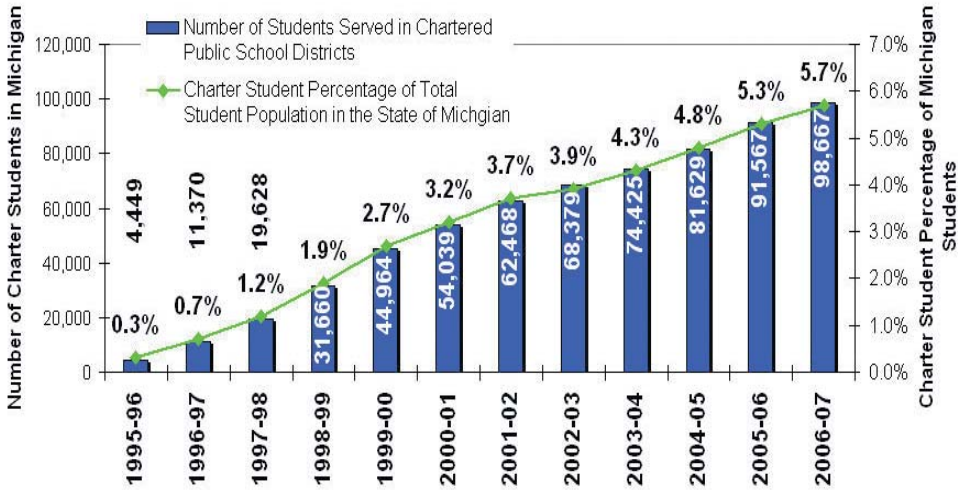


Figure 3: 2006-07 Percent of Students Attending Charters by State

	2006-2007
Washington D.C.	26.5%
Arizona	8.3%
Colorado	6.6%
Delaware	6.2%
Michigan	5.7%
Utah	4.7%
Ohio	4.2%
Alaska	3.9%
Florida	3.7%
California	3.5%

The 230 PSAs are geographically located in 104 LEAs, but the 30 LEAs with the highest populations of charter students attending school inside their borders (shown in **Figure 4**) account for almost three quarters (73%) of charter students state-wide. These counts analyze school attendance, not student residence.

Figure 4: Michigan LEAs by 2006-07 Count of PSA Students Within Their Boundaries

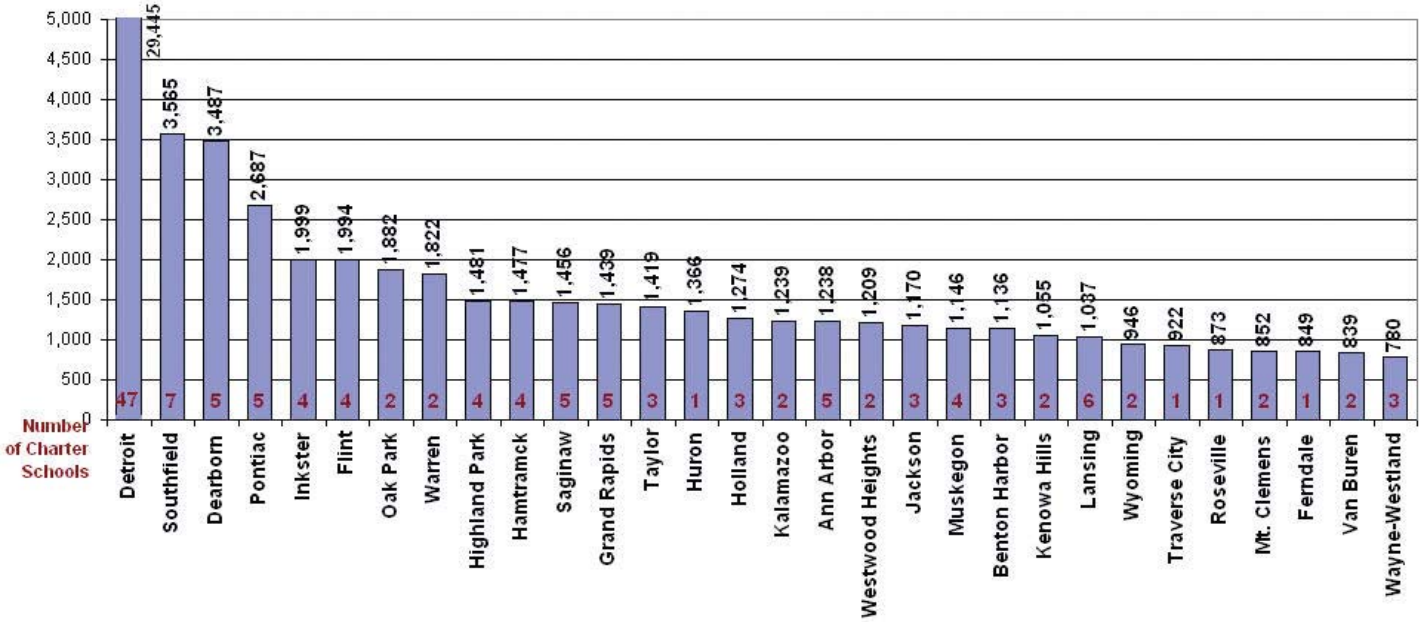


Figure 5: 2007-08 Michigan Public School Academies by Location

Geographically, Michigan's PSAs are distributed over 41 of Michigan's 83 counties, including rural, suburban, and urban locations throughout the state, though many are concentrated in the southern half of the Lower Peninsula, as shown in **Figure 5**.

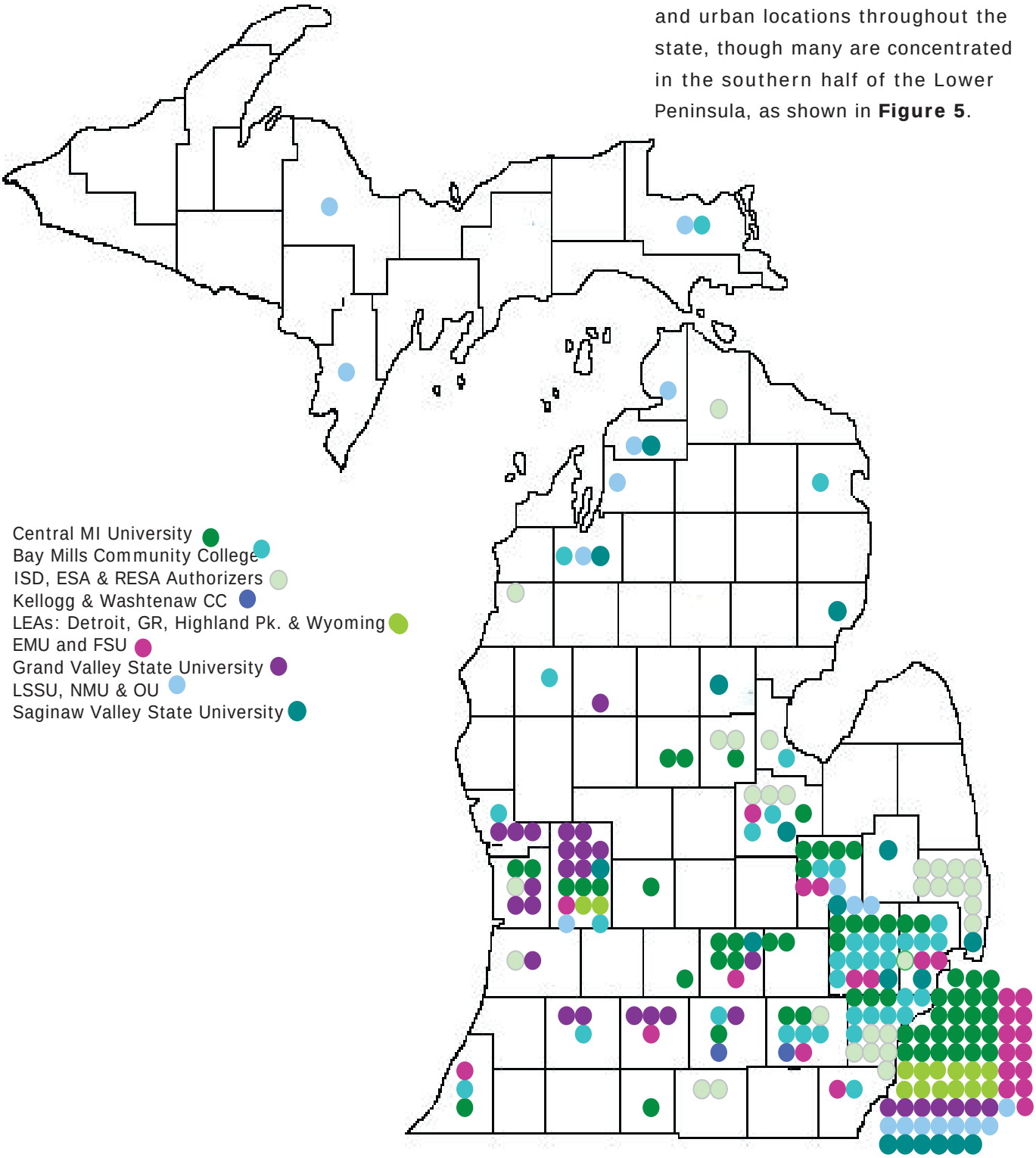
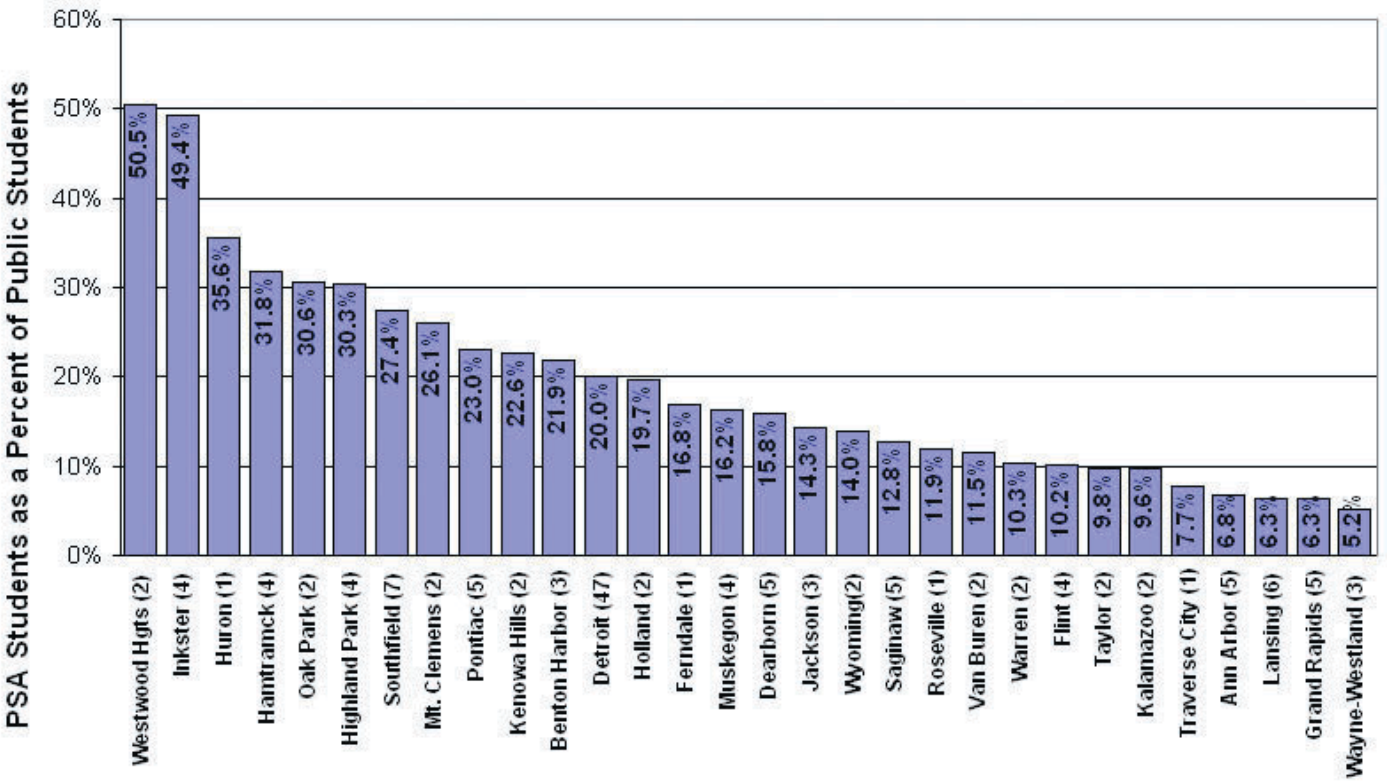


Figure 6: 2006-07 Percent of Students Attending PSAs by Michigan LEAs



Depending on the size of each LEA, **Figure 6** shows that charter students in the 30 LEAs in **Figure 4** represent from 5% to 50% of the total student population attending school inside each LEA's boundaries.

Reminder: *"Host" district numbers are made up of the 17 local districts which have 3 or more PSAs within their boundaries (and which should be understood as a subset of "non-PSAs").*

This year, the "host" districts include: *Ann Arbor, Benton Harbor, Dearborn, Detroit, Flint, Grand Rapids, Hamtramck, Highland Park, Inkster, Jackson, Lansing, Muskegon, Pontiac, Port Huron, Saginaw, Southfield, Wayne-Westland.*

Proportionately more PSA students are in Grades K-5, as **Figures 7 and 8** show—57.4% compared to 42.9% for host districts and 40.7% for non-PSAs. At the same time, the number of PSA high school students has more than doubled in the last five years, and the most frequent pattern of expansion is to amend existing contracts to add middle or high school grades. Of 21 grade level additions established by contract amendment for the 2007-08 school year, 13 added middle school grades, five added high school grades, and three added elementary grades.

Ethnicities of PSA students closely resemble the ethnic mix of the 17 urban host districts that house three-quarters of them, with African American students making up more than half the student population in both cases. Caucasian students make up 34% of PSAs and 29% of urban hosts. Hispanic, Asian, and other races constitute the balance. This approximately shared profile differs sharply from the ethnic mix of all non-PSAs, where 74% of students are Caucasian and 18% African American. **Figure 9** displays the ethnic proportions of PSAs, hosts, and non-PSAs.

Figure 7: 2006-07 Student Enrollment by Grade Range

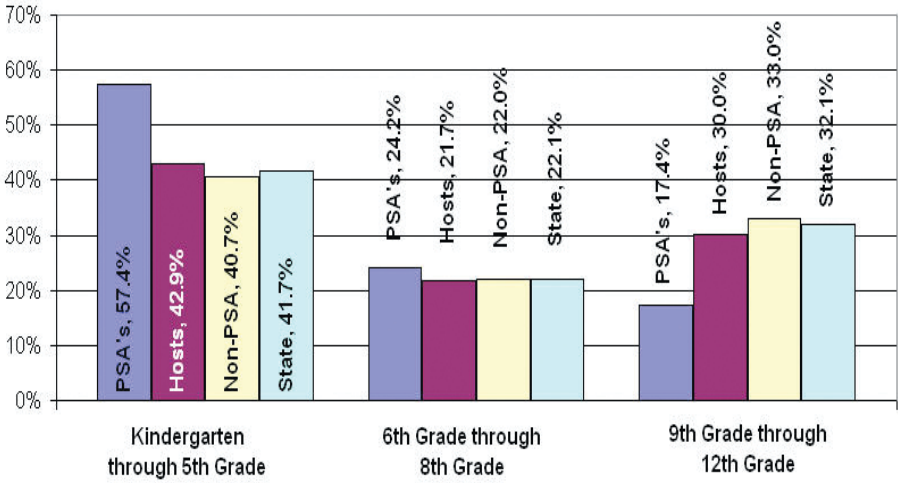


Figure 8: 2006-07 Student Enrollment by Grade

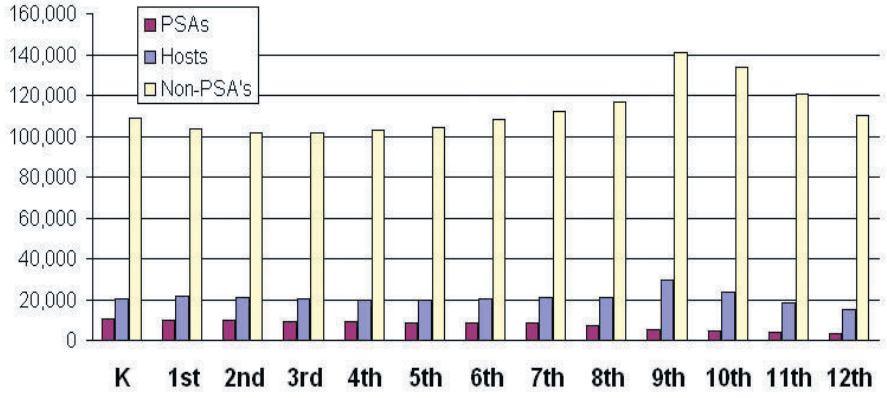


Figure 9: 2006-07 Student Enrollment by Ethnicity

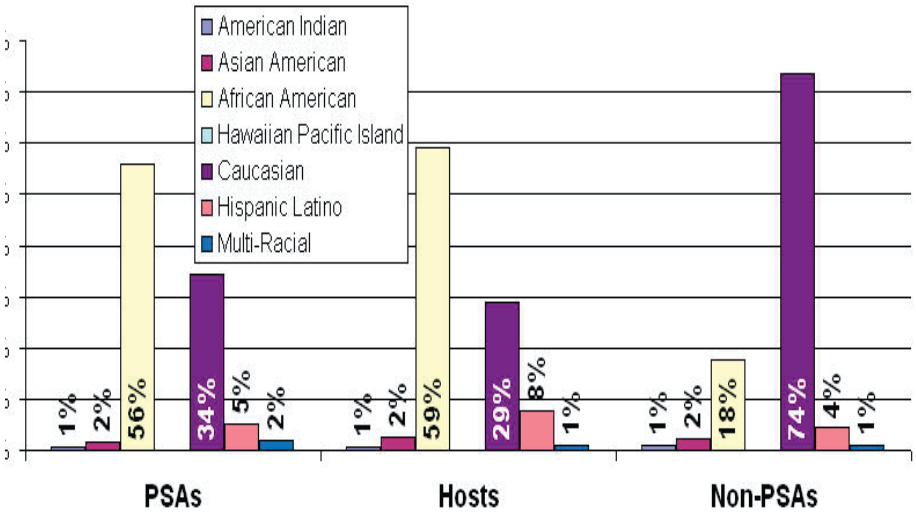


Figure 10: 2006-07 Average Free/Reduced Lunch Eligibility

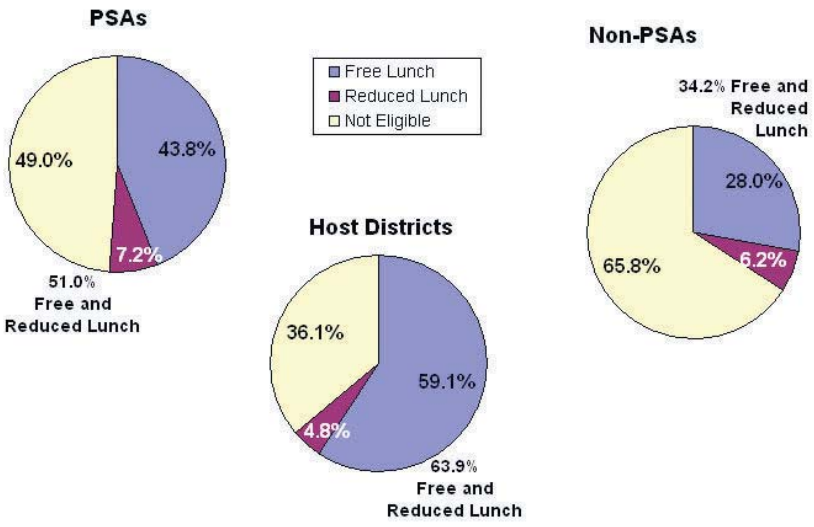
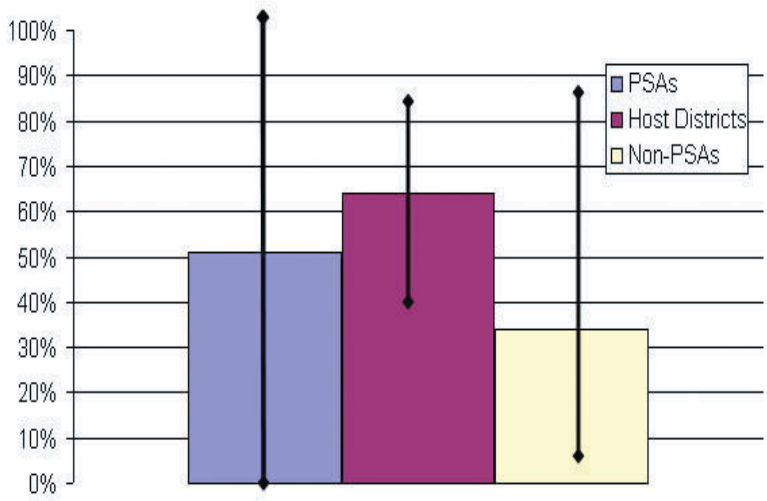


Figure 11: 2006-07 Range of Free/Reduced Lunch Percentages



A similar pattern emerges from economic analysis as shown in **Figure 10**. For both PSAs and host districts, combining free with reduced price lunch-eligible students accounts for more than half of their students (51.0% of PSAs and 63.9% of host districts), compared to 34.2% of non-PSAs.

Because state-wide averages hide a great deal of variation, **Figure 11** displays the range in each case that gets folded into the "average." Both Non-PSAs and PSAs include schools below 10% and over 90%. It is this wide range of economic status which necessitates the scatter-plot displays used in the following academic section of the report, allowing PSAs that serve similar populations to be compared to those most like them, while being differentiated from others with dissimilar populations.

The percentage of special education students attending PSAs continues to remain lower than their host district counterparts in MDE's December 2006 special education count, as shown in **Figure 12**. Individual PSAs range from zero to 58%, plus one PSA with a 100% special education population. **Figure 13** divides individual PSAs ranked by special education percentage into ten equal groups and displays each cluster's percentage to illustrate the wide range of PSA experience.

Roughly equivalent proportions of students of different disability types are reported for PSAs, hosts, and non-PSAs. This data is displayed in **Figure 14**.

Figure 12: December 2006 Students with Disabilities

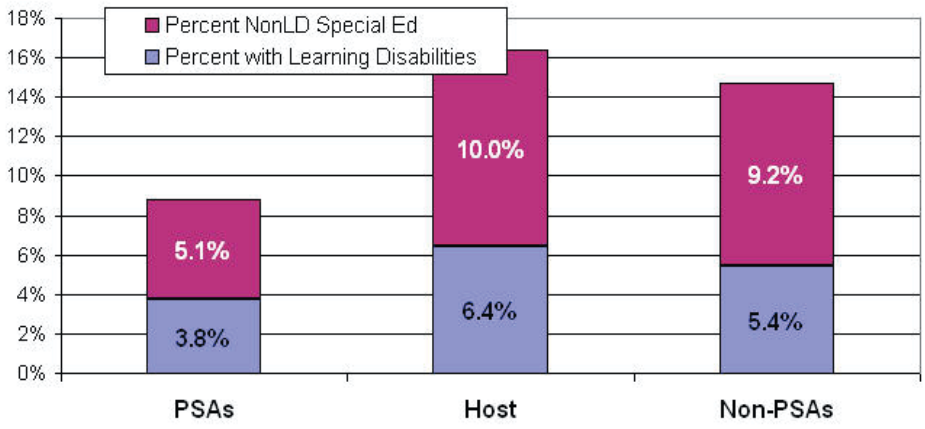


Figure 13: December 2006 Range of PSA Special Education Percentages

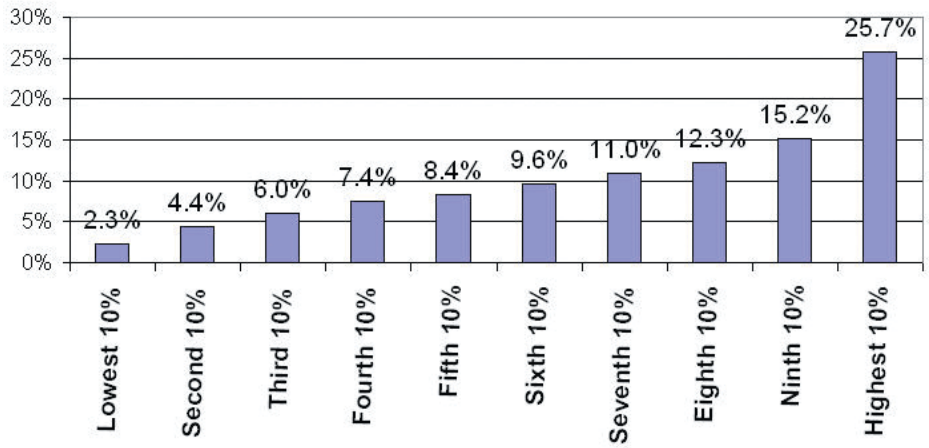


Figure 14: December 2006 Percent of Students by Type of Disability

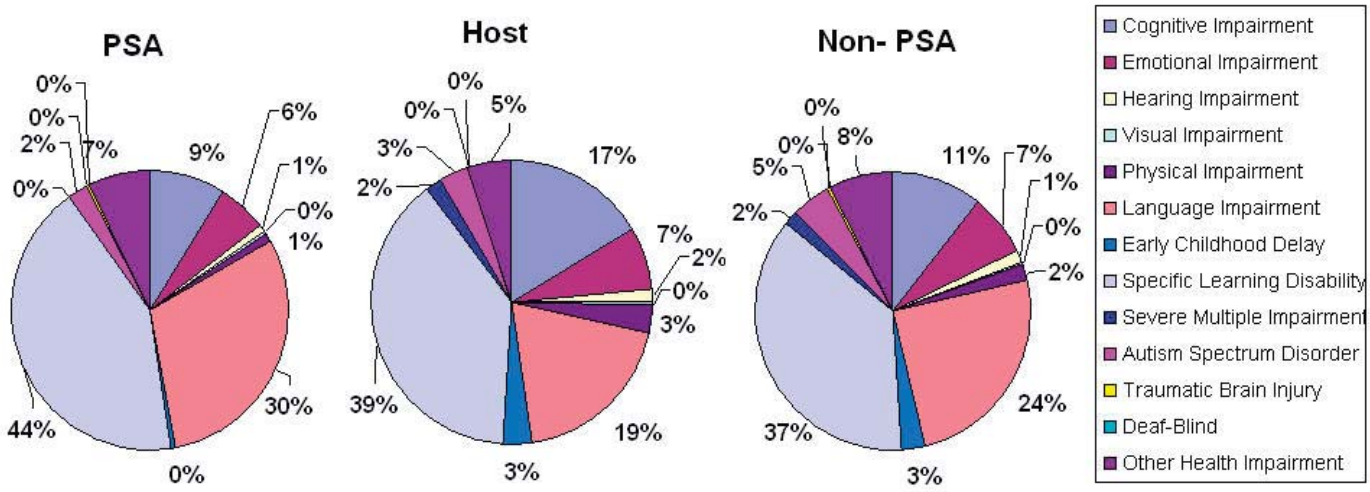


Figure 15: 2006-07 PSAs Authorized by Type of Authorizer

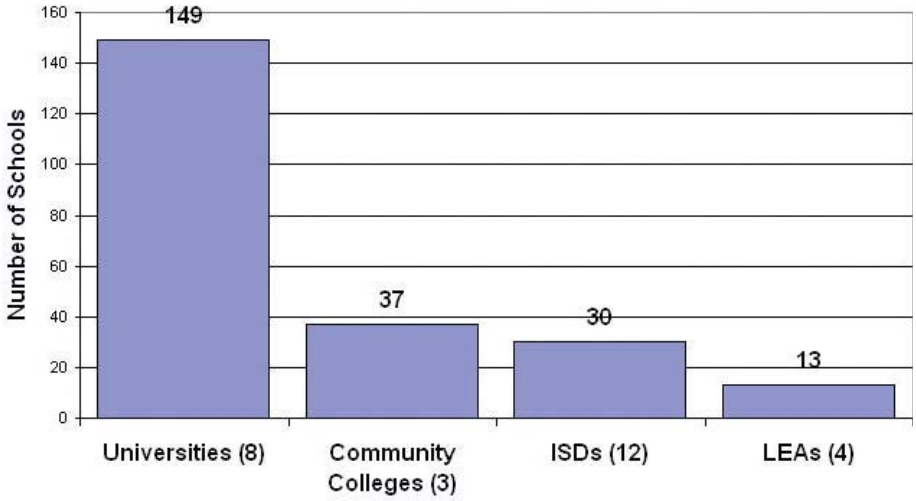


Figure 16: 2006-07 Number of PSAs by Authorizer

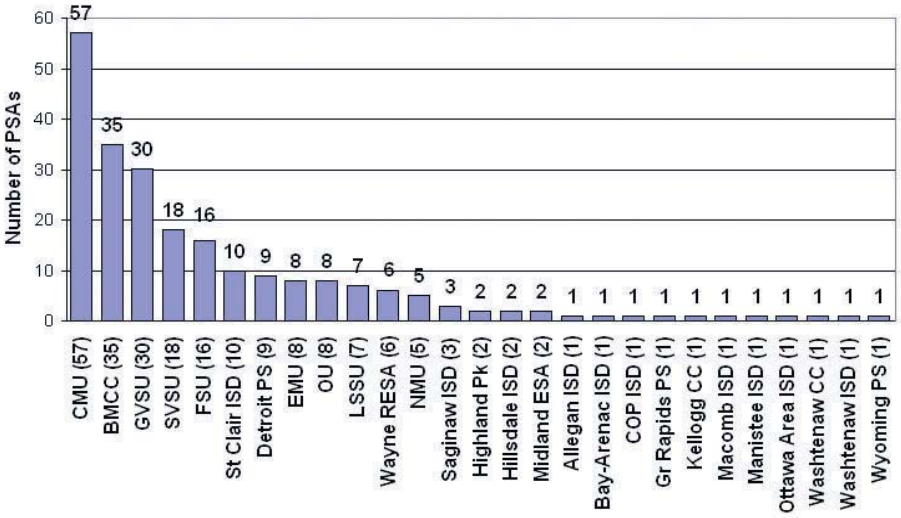
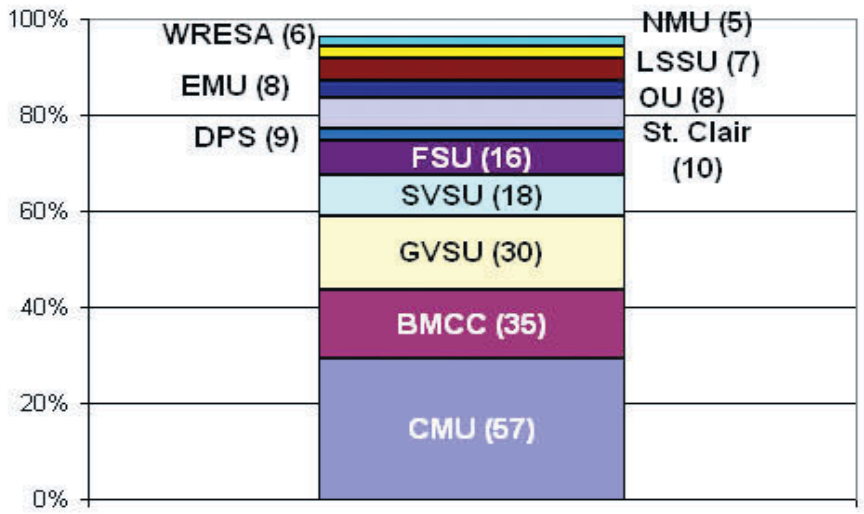


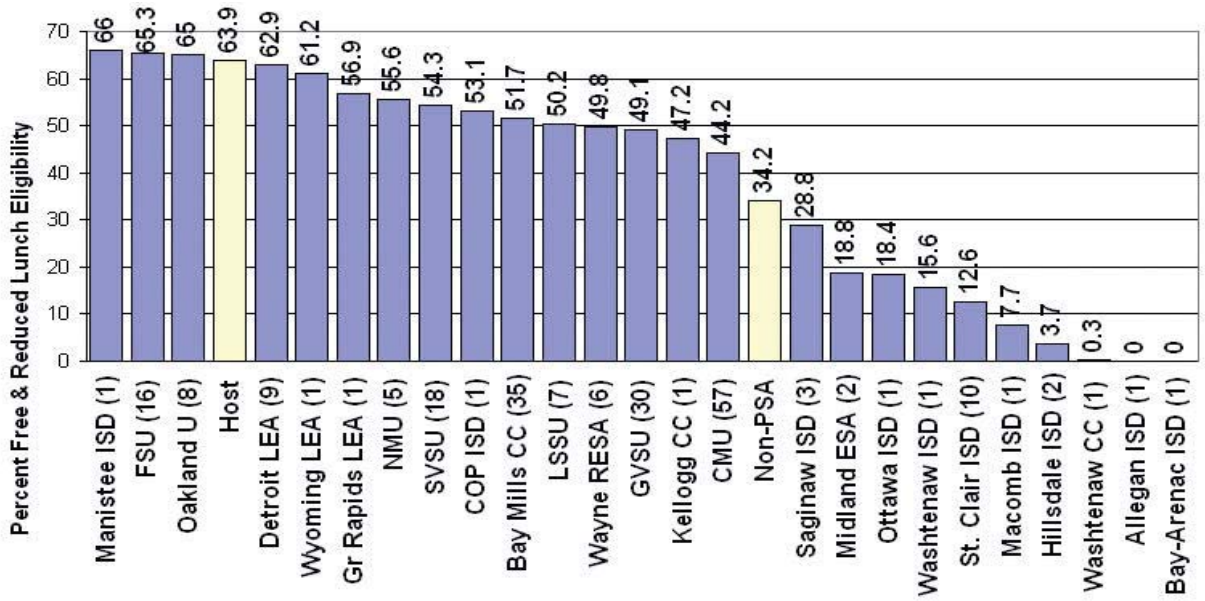
Figure 17: 2006-07 Students Served by Authorizers' PSAs

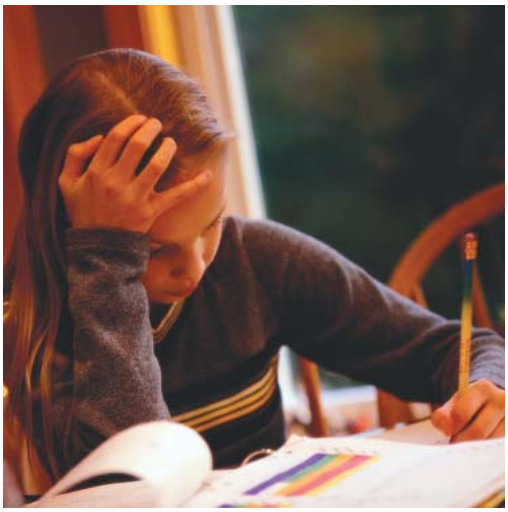


As **Figure 15** shows, eight universities are active charter authorizers, and they have authorized 149 of the 150 PSAs allowed under statute. Three community colleges (with 37 PSAs), twelve ISDs (with 30 PSAs), and four local school districts (with 13 PSAs) are also active authorizers.

Of the 27 active authorizers in **Figure 16**, twelve have responsibility for five or more PSAs, and PSAs chartered by those twelve authorizers account for 97% of charter school students. **Figure 17** graphically displays the authorizers' accumulating percentages, with number of PSAs in parentheses.

Figure 18: 2006-07 Free/Reduced Lunch Eligibility for PSAs Chartered by the Same Authorizer

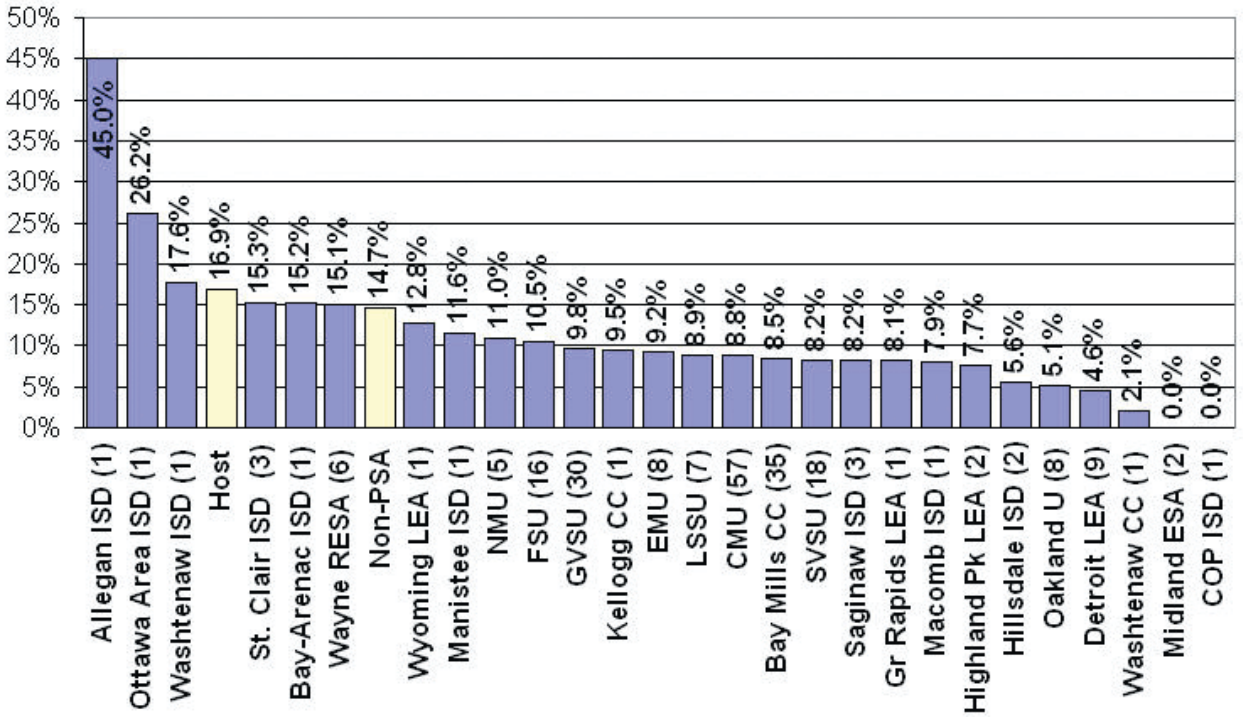


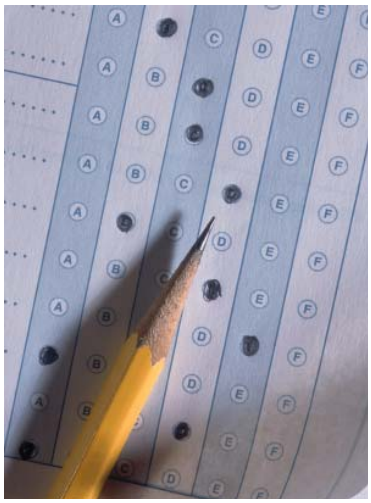


Authorizers are not, of course, responsible for the enrollment patterns that make up the demographics of the PSAs they charter. In fact, the PSA itself is obliged by law to accept any student who enrolls and to conduct a lottery to choose among applicants if more wish to enroll than space will allow. However, an authorizer's choice of its schools (with their varying locations, identities, and intended strategic focus choices) influences the student populations that will be attracted to the authorizer's portfolio of schools. **Figure 18** compares the socio-economic status of the students served by PSAs approved by each authorizer, using Free and Reduced lunch eligibility as an indicator, to provide context for the academic data that is sorted by authorizer later in this report.

Similarly, the proportion of special education students served by each authorizer's portfolio of PSAs provides relevant demographic context for academic comparisons that follow. Thus, **Figure 19** ranks authorizers by percent of special education students served by PSAs chartered by each authorizer.

Figure 19: Dec 2006 Percent Special Education Students in PSAs chartered by the Same Authorizer





Academic Performance

ACADEMIC PERFORMANCE

Most charter schools, as well as traditional public school districts, have developed multi-dimensional approaches in the systems by which they measure educational progress. Many authorizers aggregate a variety of academic data within their oversight systems and use it to inform their accountability decisions. In addition to MEAP, several authorizers also require the use of specific standardized assessments (such as Gates-McGinnite, Iowa Basic, or Scantron Performance Series), which are used to monitor educational progress and in some cases measure annual growth. These assessments are typically funded through the authorizer's oversight fee and allow comparative analysis among an authorizer's portfolio.

For this report, however, the fundamental measure used to analyze academic performance is MEAP, since it is the single measure for which data are available for all PSAs and all non-PSAs in the state. The remaining data analyzed in this report combine MEAP's academic data with other factors to derive: Adequate Yearly Progress (AYP), No Child Left Behind (NCLB) phases of school improvement status, Education YES! School Report Card grades, and attendance rates. These measures are discussed as individual components within the analysis of academic performance.

In each case, the most recent available data are reported here. This means that the underlying MEAP performance described in this report results from fall 2006 elementary and middle school test administration dates and spring 2007 high school testing dates.

MEAP Performance

The MEAP test is an annual assessment of student achievement based on the Michigan Curriculum Framework Standards and Benchmarks and the accompanying Grade Level Content Expectations as developed and approved by the State Board of Education (SBE) for English Language Arts (ELA) and Mathematics in grades 3-8. These SBE-approved expectations were developed with participation from Michigan educators, parents, community members, university professors, and other experts within each content area and grade level. Fall 2006 represents the second year that students were assessed in ELA and Mathematics for grades 3-8.

For the first time in spring 2007, the Michigan Merit Examination (MME) consisted of three parts:

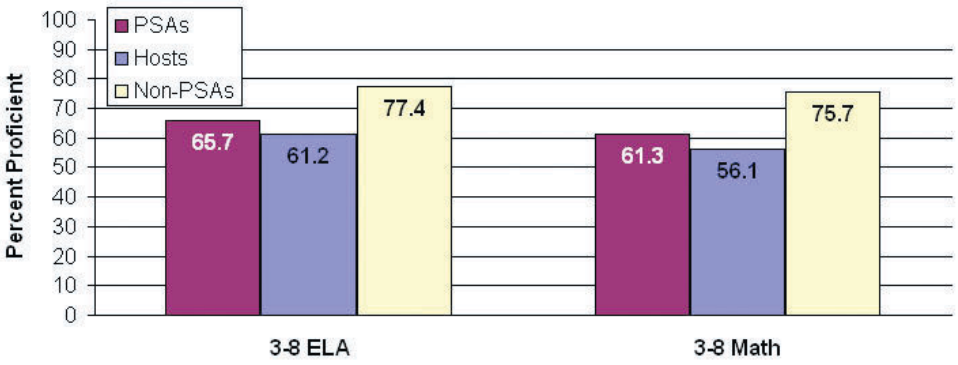
- The American College Testing (ACT) college entrance examination,
- WorkKeys job skills assessments in reading and mathematics, and
- Michigan assessments in mathematics, science, social studies, and persuasive writing.

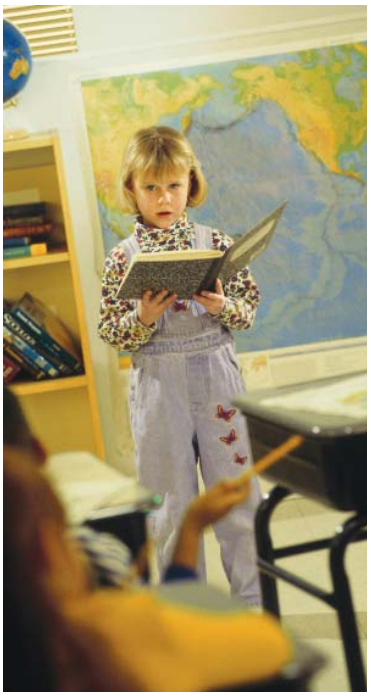
Students enrolled in Grade 11 took the MME in March, 2007. The combined MME assessment measures student learning against Michigan high school standards, benchmarks, and core content expectations.

Elementary and Middle School

Figure 20 compares fall 2006 Grade 3-8 charter school performance with that of the 17 host districts and with non-charter public schools. For both ELA and Mathematics, data have been aggregated for grades 3-8 to form a single comparison. This information identifies the percentage of students who met or exceeded state standards in each content area. Both charter districts and host districts demonstrated lower overall success than non-charter public schools in both ELA and Mathematics. However, charter schools showed slightly higher proficiency rates than the 17 urban host districts from which they draw many students.

Figure 20: Fall 2006 Grade 3-8 MEAP Proficiency





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This year, the "host" districts include: *Ann Arbor, Benton Harbor, Dearborn, Detroit, Flint, Grand Rapids, Hamtramck, Highland Park, Inkster, Jackson, Lansing, Muskegon, Pontiac, Port Huron, Saginaw, Southfield, Wayne-Westland.*

The question of whether older, more established charter schools perform at higher rates than more recently opened charters is examined in **Figure 21**. The chart compares aggregate ELA and Mathematics MEAP performance for grades 3-8, depending on the age of the charter school. PSAs were assigned to one of the three following groupings by age of the school:

1. Schools open 1-3 years at the time of testing.
2. Schools open 4-6 years.
3. Schools open 7 or more years.

Similar results were discovered for both ELA and Mathematics. In both cases, student performance improved as the school matured.

Figure 21: Fall 2006 Grade 3-8 MEAP Proficiency by Age of PSA

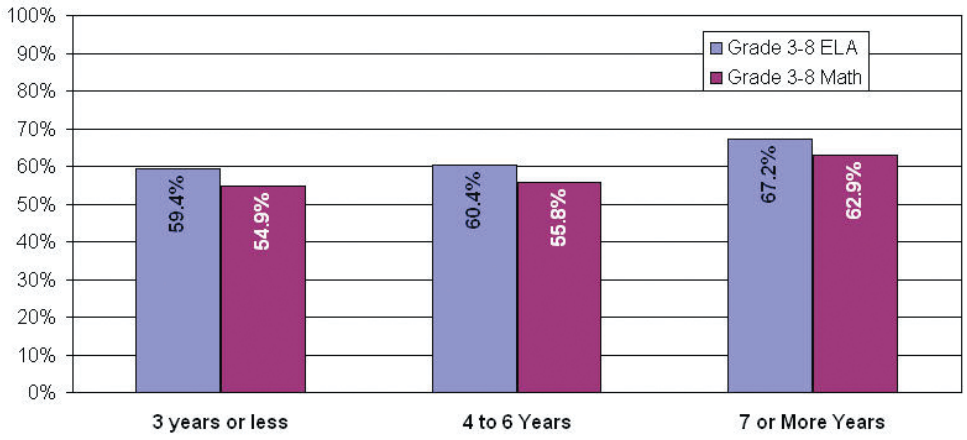


Figure 22: Fall 2006 Grade 3-8 MEAP Proficiency for Economically Disadvantaged Students

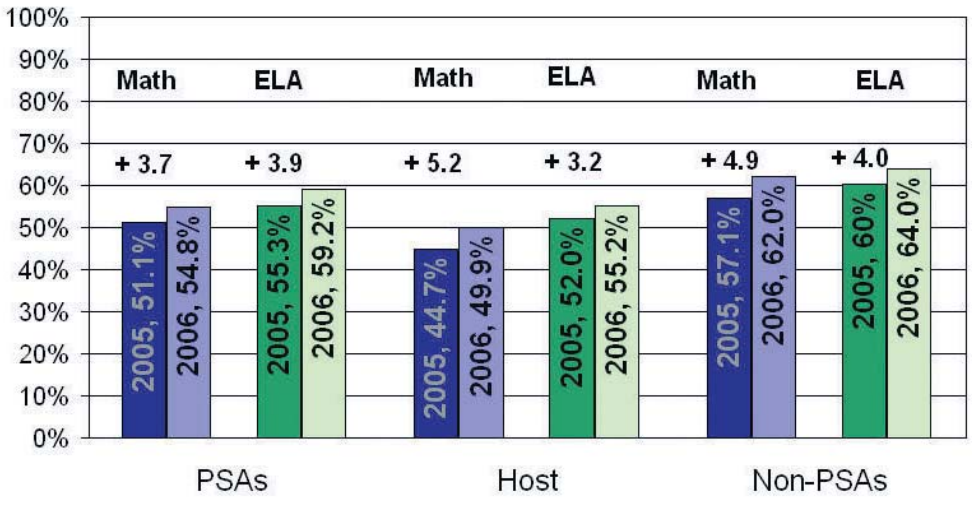


Figure 23: Fall 2006 Grade 3-8 MEAP Proficiency for African American Students

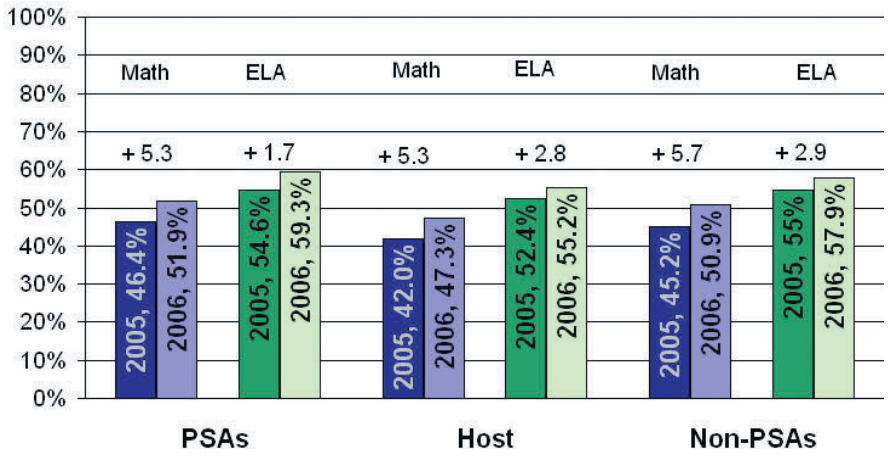


Figure 24: Fall 2006 Grade 3-8 MEAP Proficiency for Hispanic Students

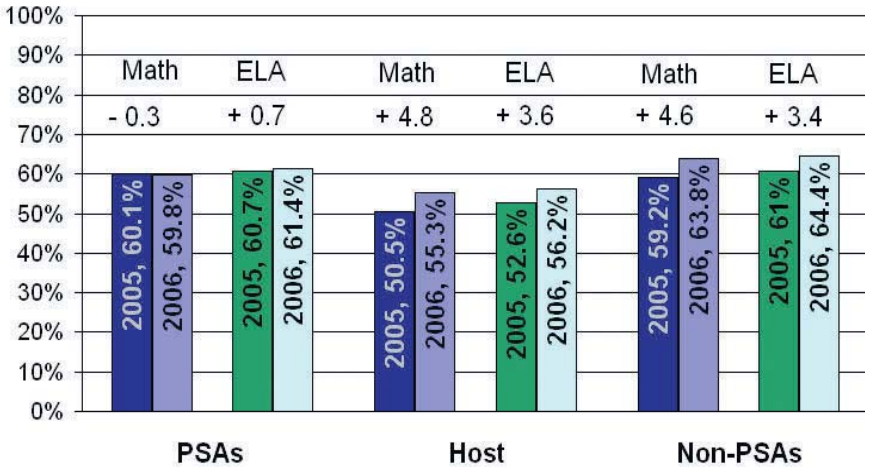
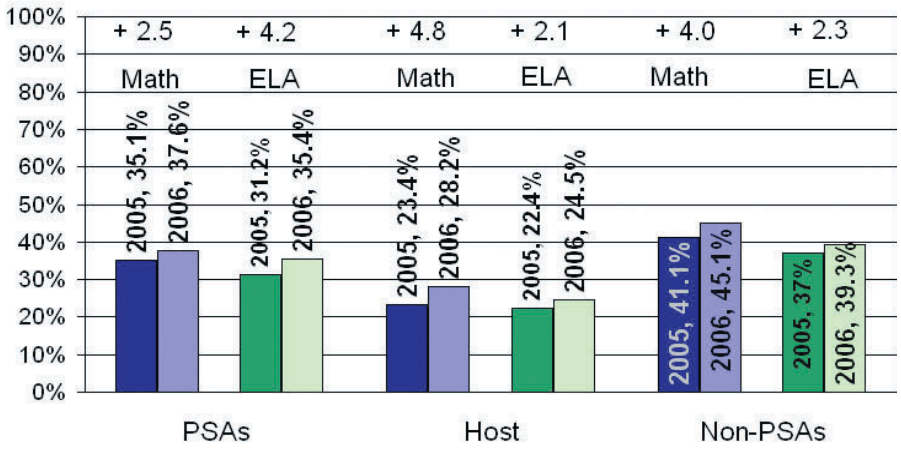


Figure 25: Fall 2006 Grade 3-8 MEAP Proficiency for Students with Disabilities



In addition to a school's overall "average" performance, it is important to track whether specific subgroups of students are included in the average performance. **Figures 22 through 25** compare subgroup performance in ELA and Mathematics for PSA grades 3-8 (aggregate) with that of non-charter public schools and the urban host districts. All four major subgroups for which PSA students were numerous enough to aggregate data meaningfully (Economically Distressed, Students with Disabilities, African American and Hispanic ethnicities) were included in the analysis. In the fall of 2006, charter schools demonstrated higher levels of proficiency in grades 3-8 ELA and in Mathematics for each of the four subgroups than did the urban host districts. In fact, African American students in PSAs also exceeded the performance of their counterparts in non-PSAs state-wide.

High School

Figure 26 indicates that PSA high schools performed significantly lower than their host districts in ELA as well as in Mathematics. Both charter schools and host districts performed below all non-charter public schools in both ELA and Mathematics.

The length of time a PSA high school has been in existence appears to have an even more pronounced effect on student achievement than at the elementary and middle school level. **Figure 27** demonstrates that students in high schools which opened since 2004-05 (and are thus within the first three years of operation) performed lower in both subjects. Those that opened between 2001 and 2003 (which are now in their 4th to 6th years of operation) matched the performance of still older schools.

Figure 26: Spring 2007 High School MME proficiency

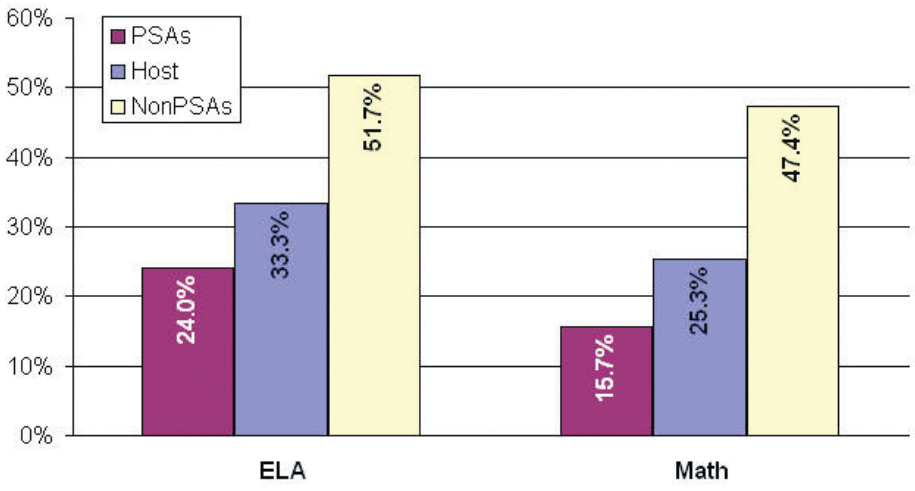


Figure 27: Spring 2007 High School MME Proficiency by Age of PSA

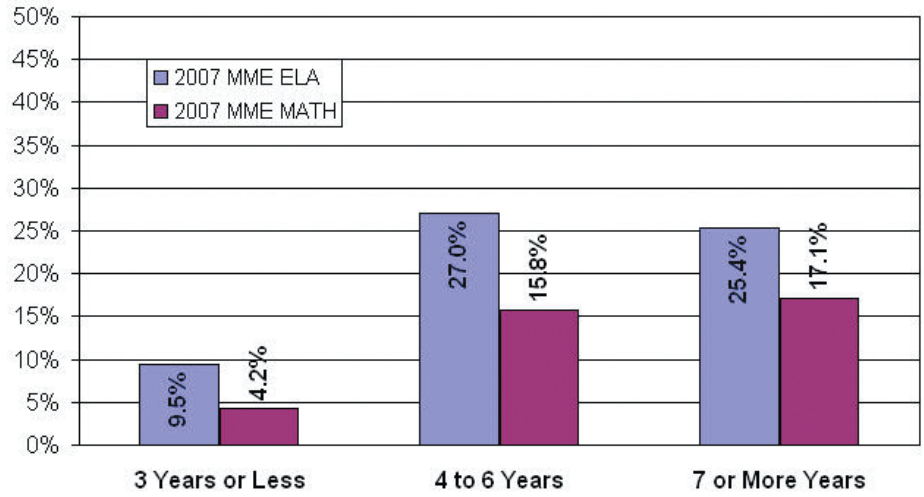


Figure 28: Spring 2007 High School MME Proficiency for Economically Disadvantaged Students

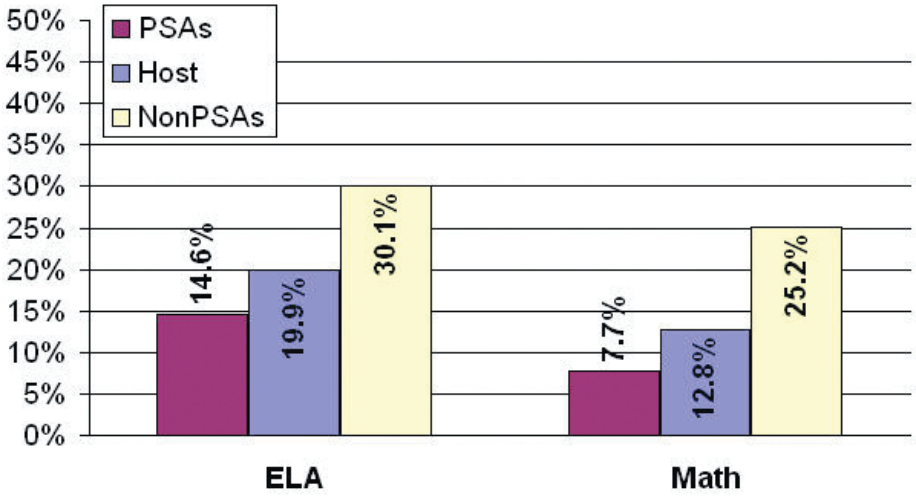
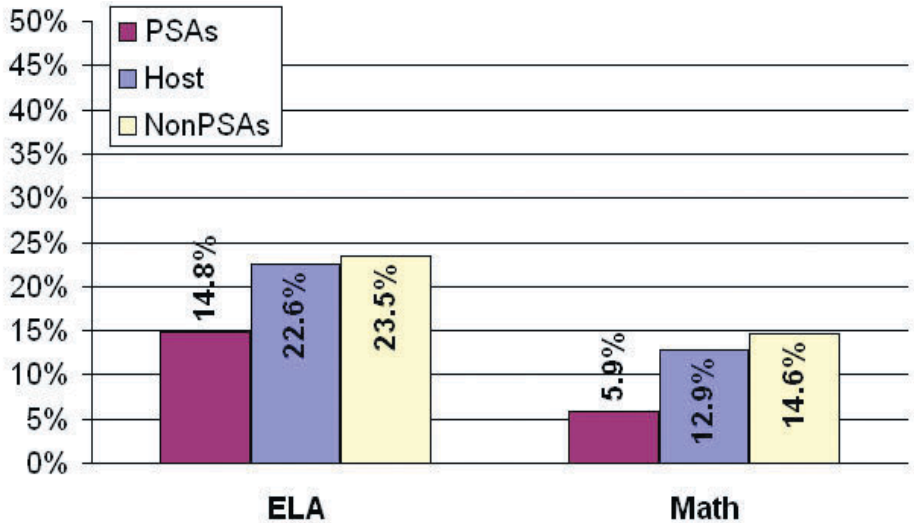
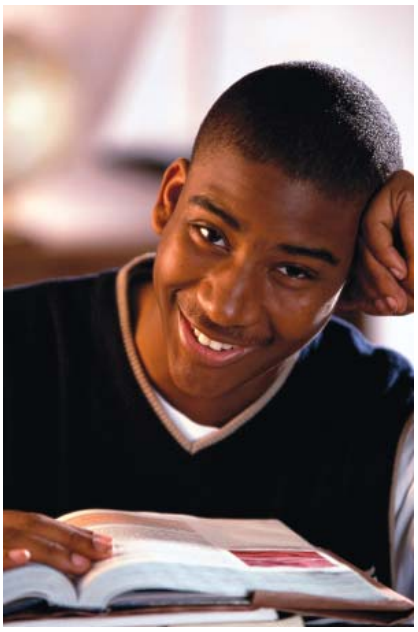
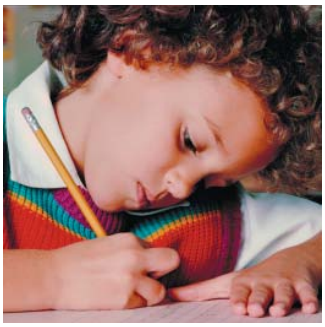


Figure 29: Spring 2007 High School MME Proficiency for African American Students





Comparisons for major subgroups in high school settings yielded results similar to those for high schools as a whole. This analysis is presented in **Figures 28-29**. In both high school ELA and Mathematics, charter school students performed less well than either host districts or non-charter public schools for the African American subgroup and for the Economically Disadvantaged subgroup. No analysis of Hispanic students or students with disabilities was possible because small sample sizes in each subgroup left the analysis statistically unreliable.



Combining Academic and Socio-economic Analysis

Regrettably, studies agree that the single best predictor of students' academic performance continues to be their socio-economic status. For this reason, many schools (including PSAs) find comparisons to the full universe of other schools to be neither informative nor "fair." These schools demand to be compared to "schools serving children like ours." The following charts use the same data analyzed above to isolate and allow comparison to other schools serving similar economic populations.

The scatter plots should be read in two steps. Moving horizontally from left to right across the bottom axis, a reader progresses from relatively prosperous student populations to relatively distressed populations. The figures on the bottom scale represent the percentage of students eligible for free/reduced lunch subsidies, and range from 0–100%. At any given point on that scale, moving vertically up the chart, the reader encounters one dot for every school in Michigan whose population fits that proportion of poor students. A school's dot is located at the height along the vertical axis at left that indicates the percentage of that school's students who scored proficient on MEAP.

The general pattern of the dot-cluster (falling from left to right) displays a classic negative correlation: the more poor students, the fewer MEAP proficiencies. This is true not only for Michigan's traditional non-PSA buildings (shown in grey squares) and Michigan PSAs (shown in darker, blue diamonds) but also for schools across the nation. When we succeed at truly not leaving any children behind, the dot-cluster will level out (meaning that relatively poor children succeed at the same rate as relatively well-off students) and then rise so that both populations succeed in higher numbers. NCLB's goal of 0% failures by 2014 would be represented on a chart like this with all dots lined up at the 100% top edge of the chart.

Figure 30: Fall 2006 3-8 ELA MEAP Proficiency vs. Poverty Percentage

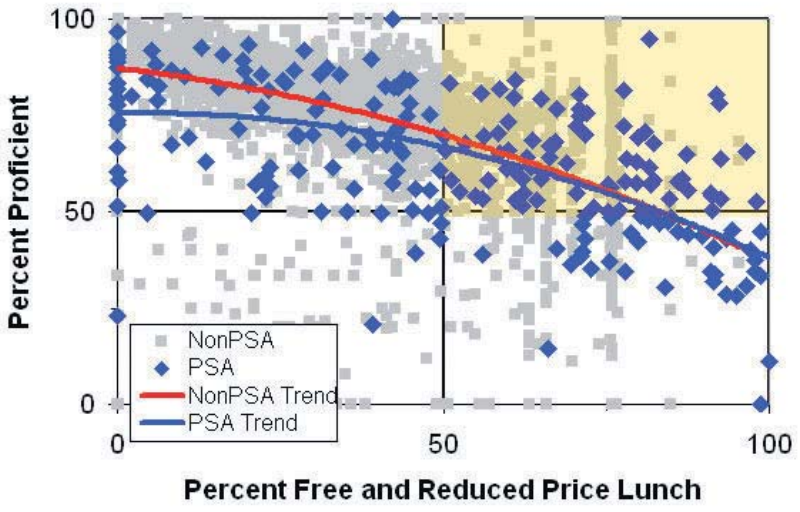


Figure 31: : Fall 2006 3-8 Math MEAP Proficiency vs. Poverty Percentage

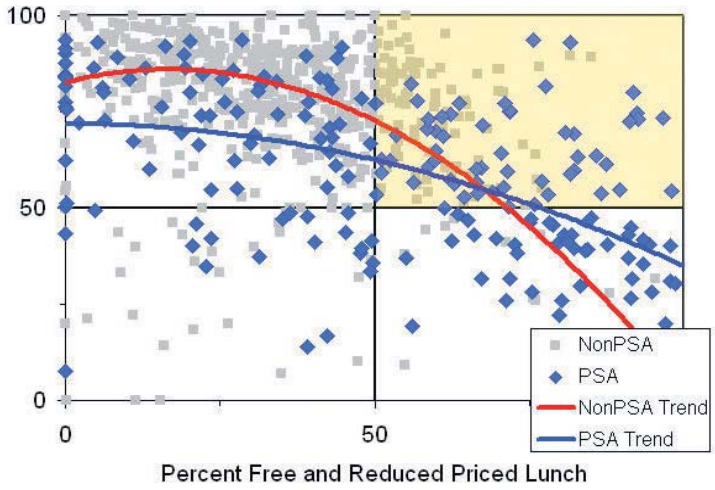


Figure 32: Fall 2006 High School ELA MME Proficiency vs. Poverty Percentage

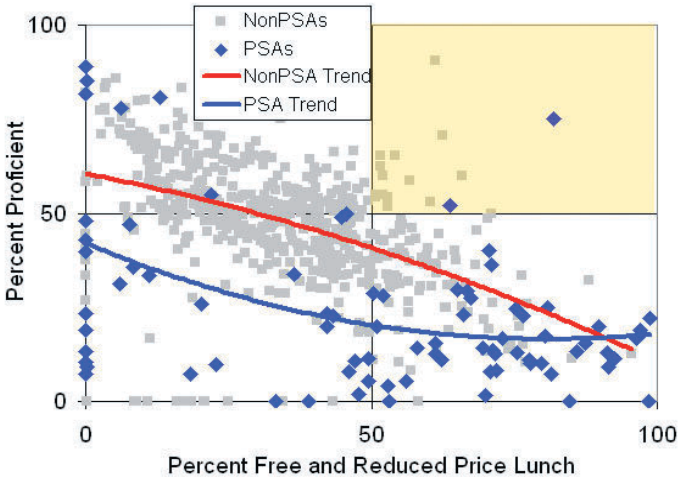
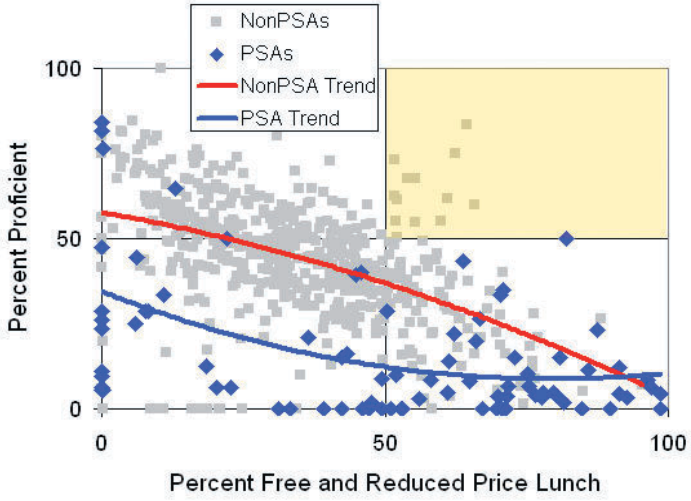


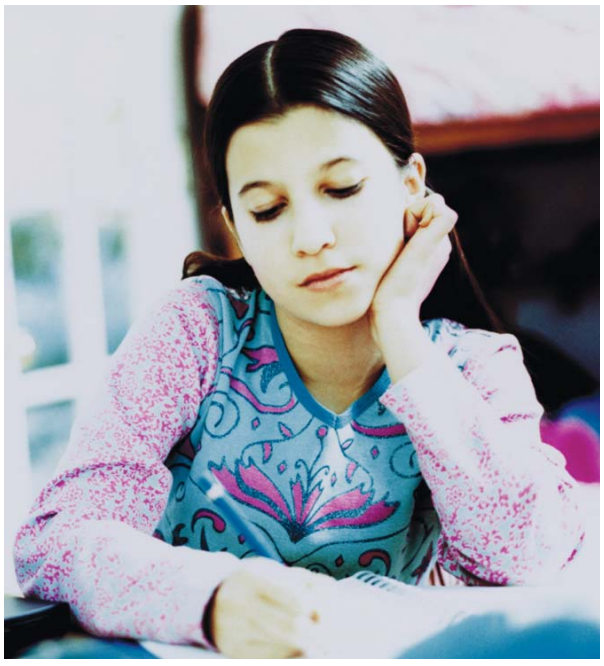
Figure 33: : Fall 2006 High School ELA MME Proficiency vs. Poverty Percentage



Figures 30-33 display the resulting patterns for 3-8 ELA, 3-8 Math, High School ELA, and High School Math. Each chart is divided into four quadrants by a horizontal and vertical line at the halfway (50%) point.

Thus, the schools in the upper right quadrant represent extraordinarily interesting successes — these schools have succeeded in achieving over 50% proficiency with populations of more than half free/reduced lunch populations. Both the PSAs and the LEAs in this quadrant deserve to be explored to identify strategies to which they attribute their success.

Disappointingly few high schools — either PSAs or traditional non-PSAs — are in the upper right quadrant. Meeting the newly rigorous High School Content Expectations will require major adjustments across the board.



Figures 34-35 identify the elementary and middle school PSAs in each grade-level and core-subject whose achievement places them in the upper right quadrant in **Figures 30-33**. Twenty-seven K-8 PSAs and one high-school PSA make both lists. Those schools are identified in **Figures 36-37.** If similar achievement can be sustained, the general and particular strategies of these schools may represent important innovations and could well be of interest to other public schools, both charter and traditional, that are working toward the success of similar populations.

Figure 34: PSAs serving over 50% Poor Students and Achieving over 60% 3-8 ELA Proficiency

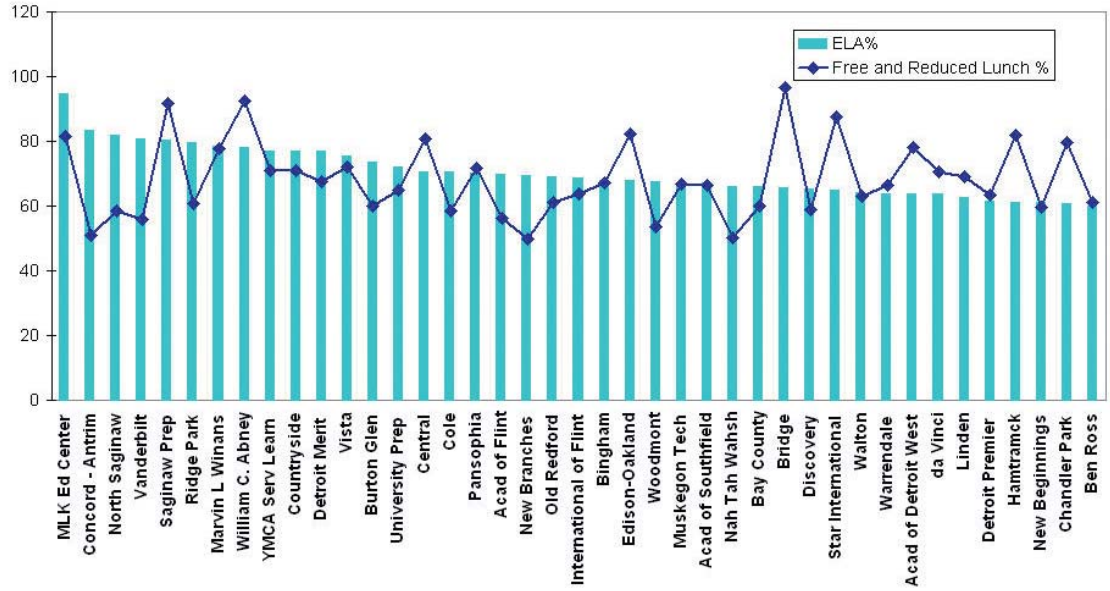


Figure 35: PSAs serving over 50% Poor Students and Achieving over 60% 3-8 Math Proficiency

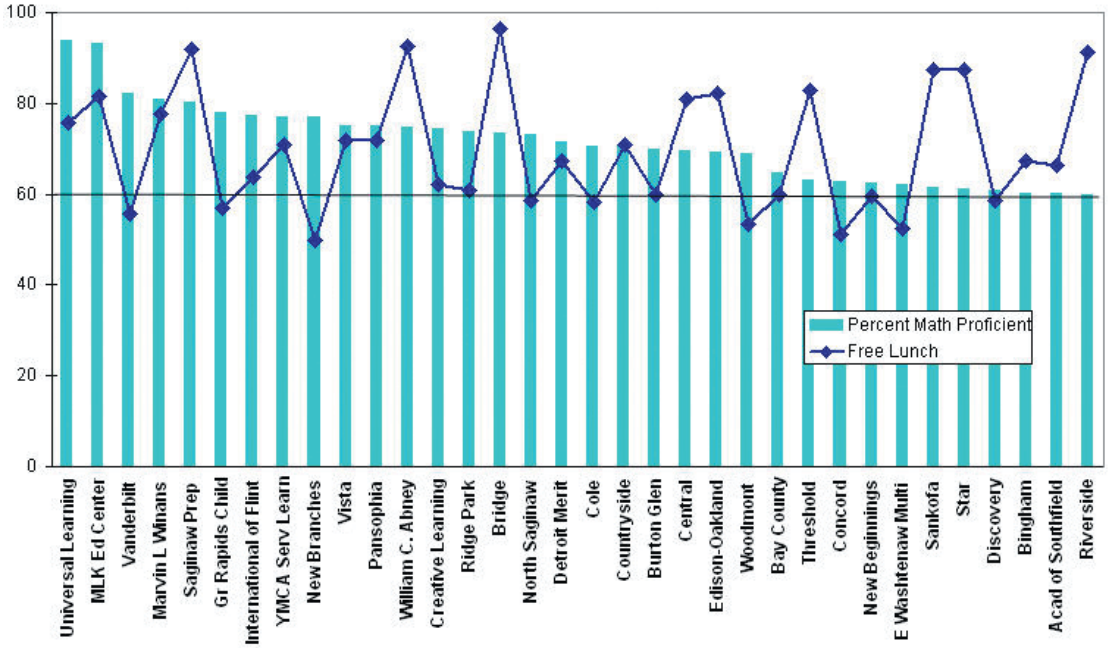


Figure 36: Fall 2006 3-8 ELA and Math MEAP Proficiency Both Higher Than 60% With More Than 50% Free/Reduced Lunch Eligibility

Public School Academy	Grades	Authorizer	Date Opened	ESP (2006-07)
Academy of Southfield	K-8	Central Michigan U	9/1995	CSAS
Bay County PSA	K-8	Bay Mills CC	8/2001	Mosaica
Bingham Academy	K-5	Bay Mills CC	9/2004	Mosaica
Bridge Academy	K-8	Ferris State U	8/2004	Global Education
Burton Glen	K-8	Northern Michigan U	9/1999	NHA
Central Academy	PK-12	Central Michigan U	8/1996	Global Education
Cole Academy	K-5	Central Michigan U	8/1995	Self-managed
Concord-Antrim	K-12	Lake Superior St U	8/1998	Lakeshore
Countryside	K-12	Central Michigan U	8/1996	Self-managed
Detroit Merit Academy	K-8	Grand Valley St U	10/2002	NHA
Discovery Elementary	K-8	Grand Valley St U	9/1996	Self-managed
Edison Oakland	K-6	Eastern Michigan U	8/1999	Edison
International of Flint	K-12	Central Michigan U	9/1999	SABIS
MLK Jr. Ed. Center	K-6	Detroit PS	10/1995	Self-managed
Marvin L. Winans	K-12	Saginaw Valley St U	8/1997	Self-managed
New Beginnings	K-5	Central Michigan U	9/1999	Self-managed
New Branches	K-6	Central Michigan U	8/1995	Self-managed
North Saginaw	K-8	Central Michigan U	9/1999	NHA
Pansophia	K-12	Central Michigan U	9/1995	Helicon
Ridge Park	K-8	Lake Superior St U	8/1998	NHA
Saginaw Preparatory	PK-6	Saginaw Valley St U	9/1997	Leona Group
Star International	K-12	Oakland U	9/1998	Hamadeh
Vanderbilt	K-8	Grand Valley St U	9/1996	NHA
Vista	K-8	Bay Mills CC	9/1996	NHA
William C. Abney	K-5	Grand Valley St U	9/1998	Leona Group
Woodmont	K-8	Grand Valley St U	9/1996	NHA
YMCA Service Academy	K-8	Lake Superior St U	8/1999	Self-managed

Figure 37: Spring 2007 High School ELA and Math MME Proficiency Higher Than 50% With More Than 50% Free/Reduced Lunch Eligibility

Public School Academy	Grades	Authorizer	Subjects	ESP (2006-07)
George Crockett Academy	K-12	Ferris State U	ELA and Math	Leona
International Academy of Flint	K-12	Central Michigan U	ELA	Flint Ed Mgt

Note: To make AYP, schools must meet the following requirements:

1) *Attendance rate (elementary and middle schools) or graduation rate (high schools) must be at a minimum of 85% for all students and subgroups.*

2) *Participation rate (the percentage of students who are tested using MEAP) must be at a minimum of 95%.*

3) *The school must meet established proficiency targets in ELA and Mathematics for all students. The school can also meet this requirement by reaching "safe harbor," which is accomplished by reducing the previous year's percentage of students identified as "not proficient" by 10% in each subgroup.*

Adequate Yearly Progress and Phases of Improvement

"Adequate Yearly Progress" has been defined by federal NCLB law as demonstrating that a school is on track toward having all of its students meeting state proficiency standards by 2013-14. **Figure 38** identifies the percentage of schools that made AYP for PSAs, host districts, and non-PSA public schools in 2006-07. This comparison reveals that charter schools made AYP at a higher rate than host districts. Both charter schools and host districts made AYP at lower rates than non-charter public schools.

If a school does not make AYP for two consecutive years, it is identified by NCLB as needing improvement. Michigan designates these schools as "High Priority." If they qualify for Title I funds, they become eligible for additional financial assistance to support the schools' efforts to increase student success. If they continue to fail in making AYP, their improvement status moves to the next level. When schools are identified for improvement, they also become subject to additional requirements depending on the level of the school improvement status. Such requirements range from allowing for school choice (Phase 1) to restructuring school governance (Phase 4-6). Schools without enough available data are placed in AYP Advisory status (99).

Figure 38: 2006-07 Schools Making Adequate Yearly Progress

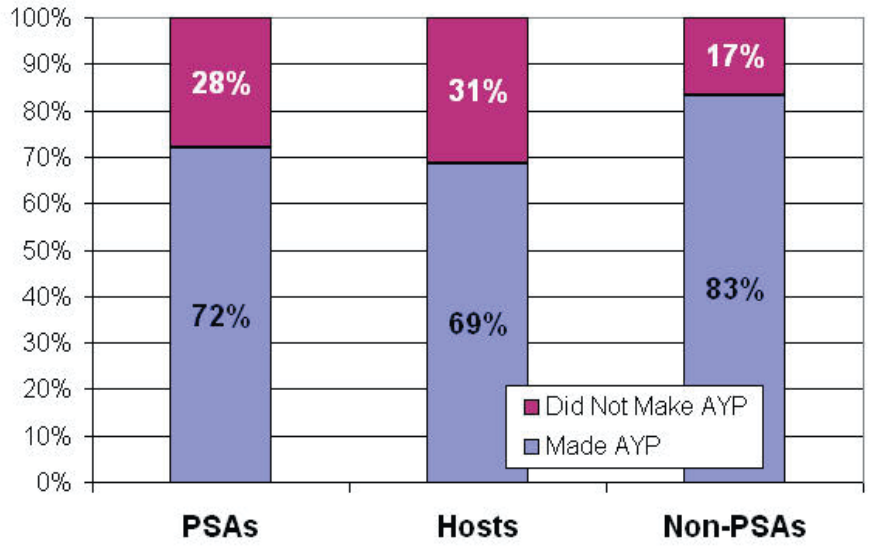


Figure 39: 2006-07 NCLB Phases of Improvement

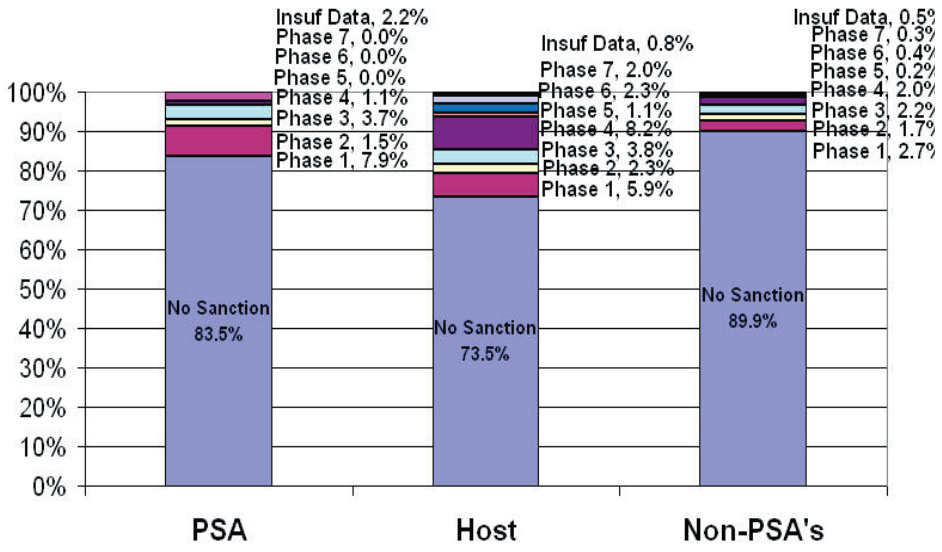


Figure 39 indicates that a higher percentage of charter schools were "Not Identified for Improvement" than host districts in 2006-07; even more non-PSAs were "not identified." Analysis also indicates that there were no charter schools in Phases 5, 6 or 7 for 2006-07, while 5.4% of host schools and .9% of non-charter public schools were within these three advanced phases of improvement. Authorizer efforts at "triage" and technical support for PSAs in NCLB sanction phases have so far resulted either in turn-around or in school closure before that point.

Education YES! School Report Card Grades

Since 1990, Michigan law (Public Act 25 of 1990) has required that all Michigan public schools receive a school report card; currently, that report card is called Education YES! It is posted electronically on the MDE website, allowing parents and students to search their own and other schools' overall performance. Each school's composite, or final aggregate grade, is calculated using a variety of weighted factors. Achievement scores (ELA and Mathematics for elementary schools; and ELA, Mathematics, Science, and Social Studies for middle and high schools) represent approximately two-thirds of a school's composite grade. The additional one-third is determined using a self-assessment which schools complete by rating their school on 40 performance indicators developed from Michigan's Comprehensive School Improvement Framework. These indicators include Teaching for Learning, Leadership, Professional Learning, Community Involvement, and Data and Information Systems.

Figure 40: 2005-06 Education YES! Report Card Grades

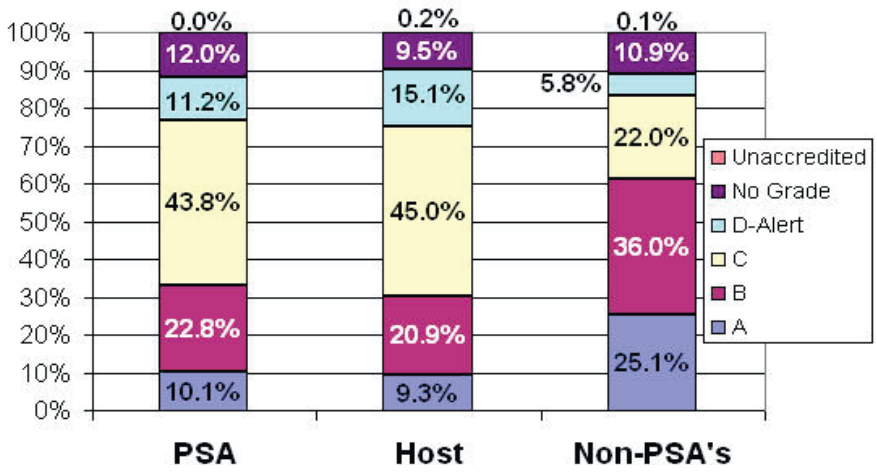
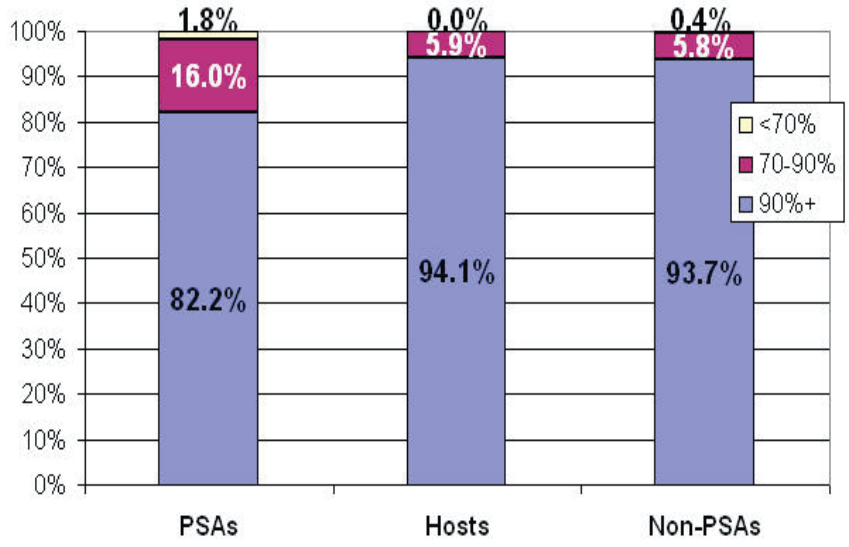


Figure 40 provides a comparison of Education YES! School Report Card grades for 2005-06. Charter schools that received report cards received grades of "A" or "B" at higher rates than host districts and lower rates than non-charter public schools.

Figure 41: 2005-06 Attendance Rates



Attendance and Graduation Rates

Both federal NCLB criteria and the state law that mandates this annual report to the Legislature specify that attendance and graduation rates should be tracked. **Figure 41** provides an analysis of attendance rates for charter schools compared to that of host schools and non-charter public schools for 2005-06.

Each district (PSA or LEA) was identified within one of three groups:

1. Schools with an attendance rate below 70%.
2. Schools with an attendance rate between 70-90%.
3. Schools with an attendance rate above 90%.

The PSAs and LEAs in each group were counted to calculate percentages. They are not weighted by student count.

More PSAs experienced lower attendance rates in 2005-06 than did non-charter LEAs or host districts.

Graduation rates are not reported immediately following a school year. Schools report these rates after considering summer graduations and promotions. This delay results in the Center for Educational Performance and Information (CEPI)'s ability to publish data only near the end of the following year, so 2005-06 data are the most recent data available for the comparison in **Figure 42**.

Buildings with graduation rates were separated into the same groups used to analyze attendance data. The building counts in each group were used to calculate the percentages.

The 2005-06 data indicate that both charter schools and non-PSAs experienced a higher graduation rate than did host schools. Non-PSAs graduated higher percentages than did PSAs.

Figure 42: 2005-06 Graduation Rates

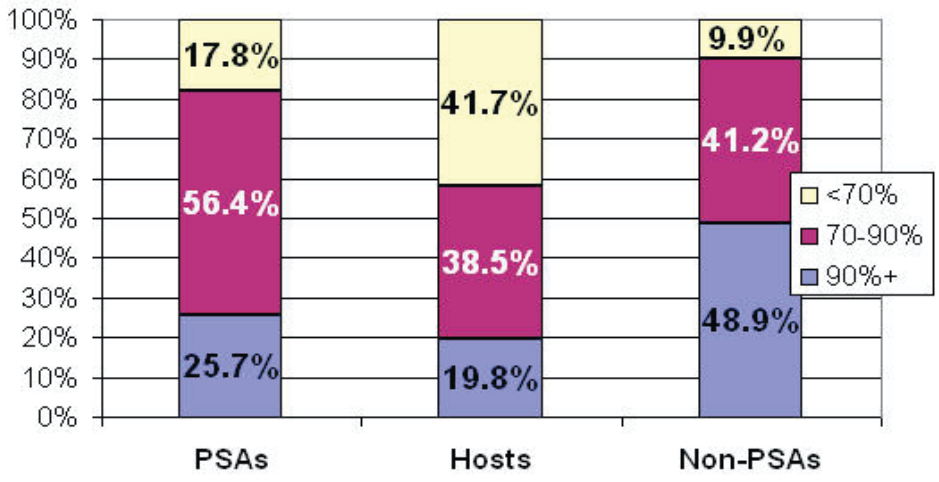


Figure 43: Fall 2006 Grade 3-8 MEAP by PSAs Chartered by the Same AUthorizer

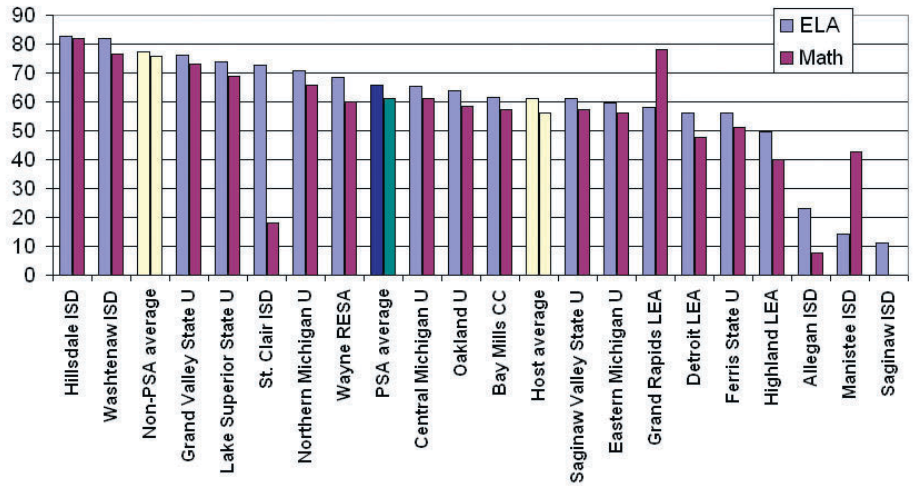
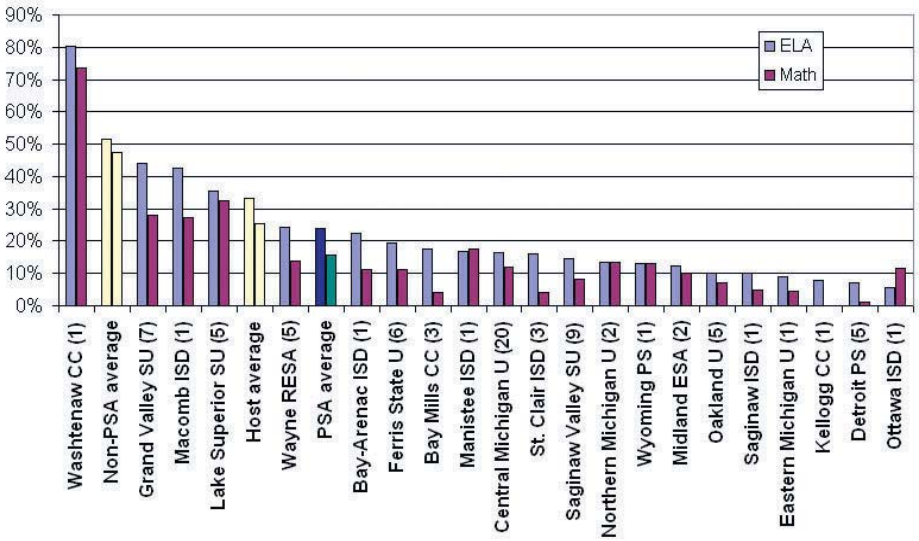


Figure 44: Spring 2007 High School MME by PSAs Chartered by the Same Authorizer



Academic data sorted by authorizer

Authorizers are responsible for ensuring that the PSAs they authorize set reasonable academic goals, and monitor performance against them. **Figures 43 and 44** consolidate proficiency percentages for each authorizer's portfolio of PSAs, except that high school results are not displayed when there are fewer than 100 students in a given data-point.

Seven authorizers hold portfolios whose Grade 3-8 aggregate averages are higher than the aggregate average of the 17 host districts for ELA, and eight authorizers outperform host averages in Mathematics.

Two authorizers' portfolios of high schools surpass the host district average for ELA and one authorizer does the same for Mathematics.

Figure 45 examines the proportion of the PSAs chartered by each authorizer and receiving AYP designations that achieved AYP during 2006-07. Nine authorizers' portfolios contain larger percentages of schools making AYP than did host district schools. Four portfolios also surpass the non-PSA average statewide.

The proportions of PSAs in an authorizer's portfolio that are in different phases of NCLB sanctions are displayed in **Figure 46**. Nine authorizers' portfolios contain larger percentages of schools not in phased sanctions (and also not in advisory status) than do host districts in the aggregate. Five of those portfolios also surpass the non-PSA proportion of unsanctioned schools.

Figure 45: 2006-07 Adequate Yearly Progress for PSAs Chartered by the Same Authorizer

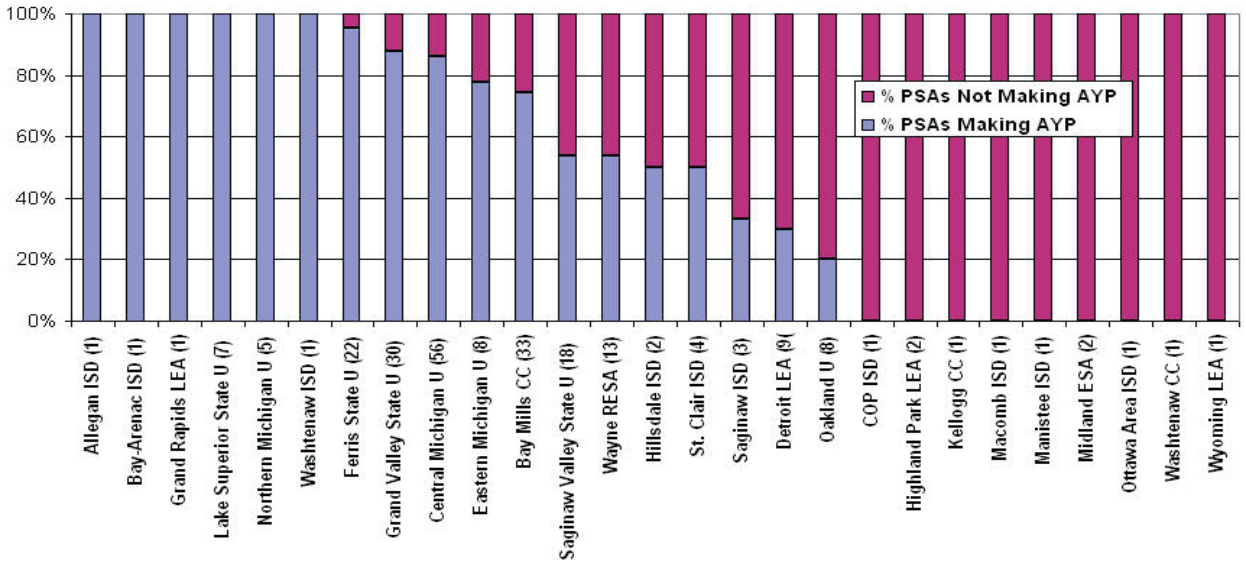
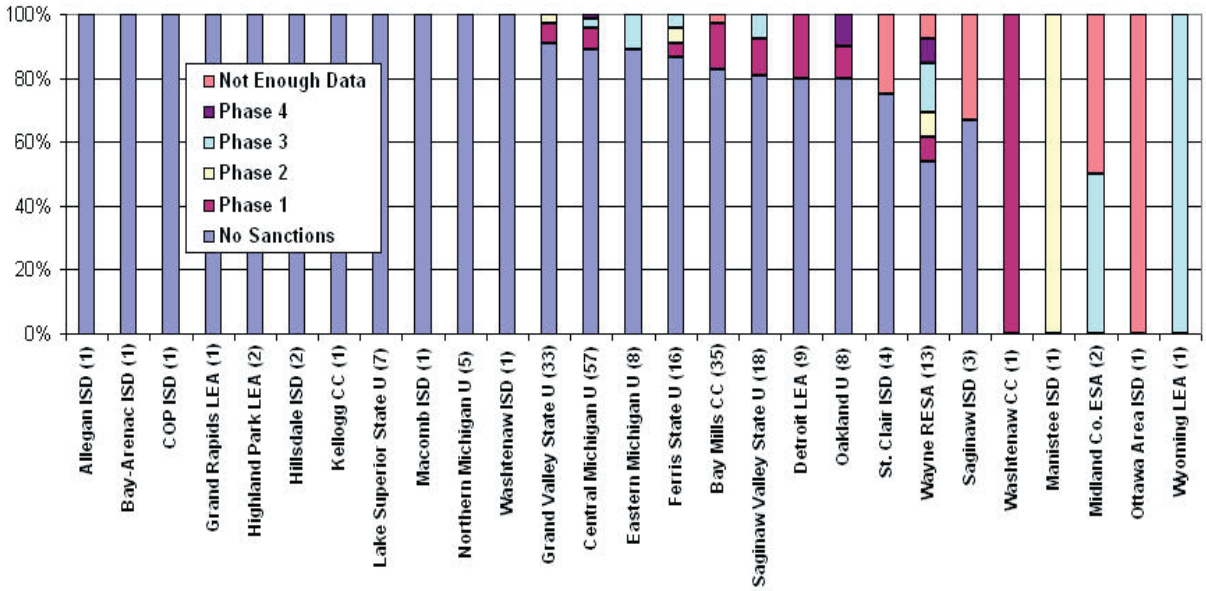


Figure 46: 2006-07 NCLB Phases for PSAs Chartered by the Same Authorizer



FINANCIAL PERFORMANCE

Comparisons of financial information are much more useful among PSAs than they are between PSAs and other public schools, since PSA revenue and expenses differ sharply from non-PSAs in several ways which make comparisons difficult:

1. Foundation grants to PSAs are tied to geographic districts, but capped.
2. Since PSAs lack taxing authority to raise funds for capital investments, they finance facilities from operating funds.
3. Competitive start-up grants are available to PSAs in their first three years of operation.
4. PSAs often offer fewer optional services than traditional districts (for instance transportation, meals, nurses, counselors, etc.).
5. PSAs that contract with an Education Service Provider (ESP) to hire staff are prohibited from participating in the Michigan Public School Employees Retirement System and instead fund alternative retirement plans.

The following charts compare PSAs to both host districts and non-PSAs wherever feasible, but these deep differences in underlying systems should be kept in mind when pointing to the results.

Revenues

Figure 47 compares revenue sources for PSAs with all non-PSAs, and with the 17 urban LEAs that host 3 or more PSAs. Both PSAs and LEAs receive state-funded foundation grants; PSA grants are tied to the LEA district in which they were originally located, but are capped at $7,175. The chart represents weighted averages for each type of school, in which each PSA and LEA's foundation grant is multiplied by the number of students to which it applies. The resulting totals are divided by the total number of pupils involved. The PSA average falls $513 short of the host districts' weighted average foundation grant. It lags non-PSAs' weighted average by $140 per pupil.

Figure 47: 2005-06 Average Per Pupil Funding Sources

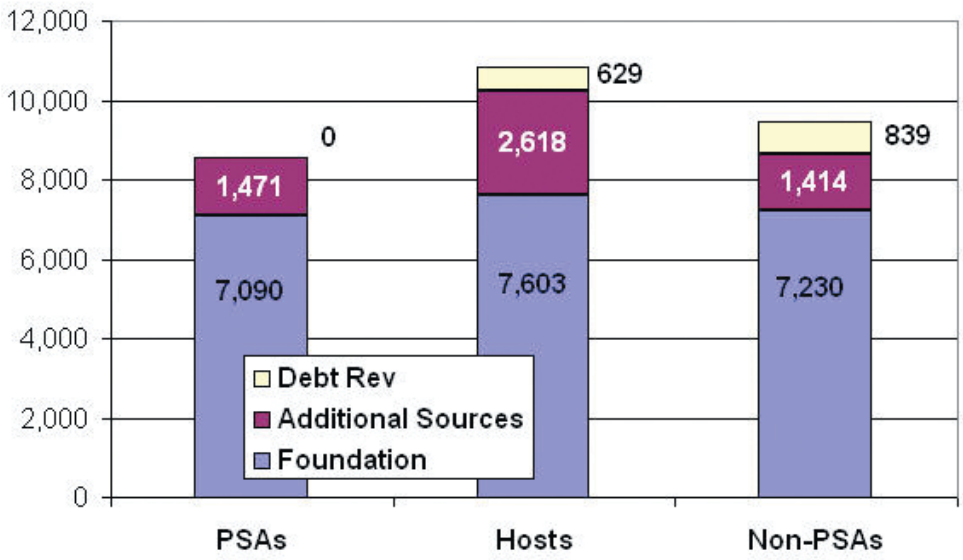
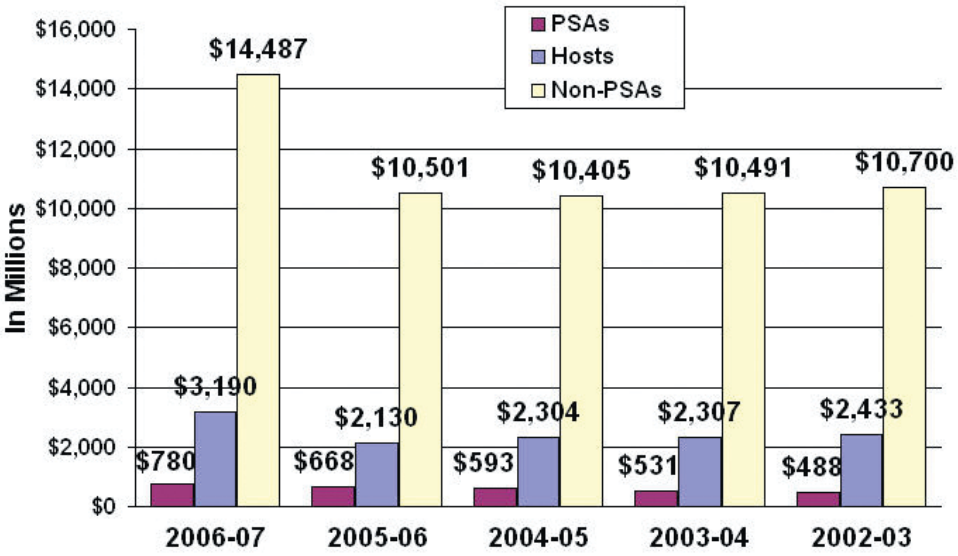


Figure 48: 2005-06 State Aid to PSAs, Hosts and Non-PSAs



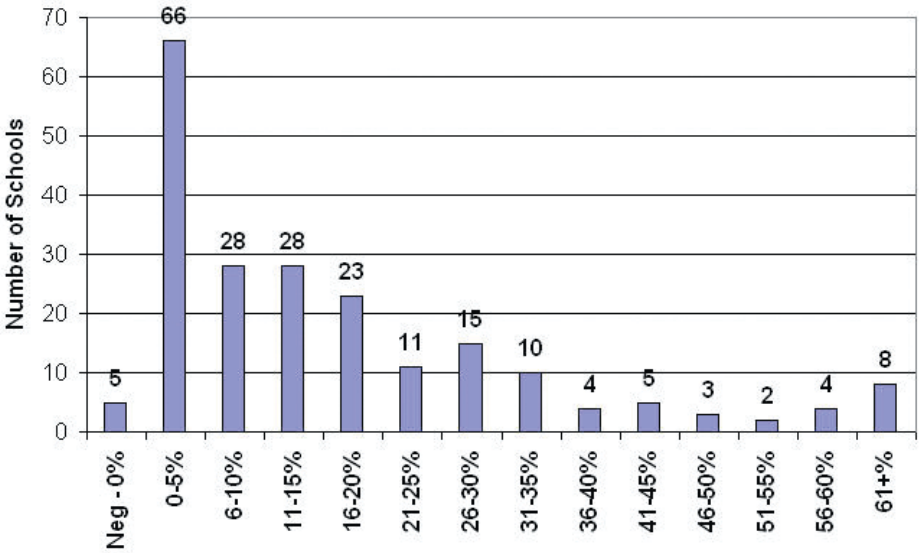
PSA's, like traditional LEAs, are eligible for additional "categorical" and competitive federal, local, and state funds. These funds are for designated purposes such as consolidated funding for Title I, II, III, V, VI, and X and for state at-risk, special education, early childhood, and bi-lingual funding. Per pupil averages (weighted by the number of students in each school) are shown, along with host and non-PSA tax revenue, against which districts can borrow to finance facilities. During the 2005-06 school year, total PSA revenues lagged non-PSAs by an average of $923/pupil and lagged host district revenues by an average of $2,289/pupil.

Total state aid to each of the three categories of schools is tracked for the last five years in **Figure 48**.

Fiscal Stability

Michigan's charter school statute requires PSAs to maintain (and directs MDE to report on) "fiscal stability." However, the concept has less of a standardized meaning for PSAs than for traditional LEAs. LEAs traditionally use fund balance as a proxy for stability, but that number is less meaningful for PSAs since substantial startup expenses during the first few years of a PSA's existence distort those numbers, and since some PSA Boards' contracts with their ESPs espouse alternative approaches to fiscal stability that do not rely on fund balance reserves. For instance, Boards that hire National Heritage Academies to manage their schools receive a commitment that in exchange for retaining any surpluses (thus reducing fund balances to zero), the management company will absorb any deficits, including startup expenses. At the other extreme, Boards that determine they should own their facility often spend several years amassing larger-than-traditional fund balances in preparation for construction or purchase. Yet other PSA Boards are philosophically committed to not accumulating fund balances, since PSAs' leaner allowance of per pupil operating funds demands that every available dollar should be spent during the year in which it becomes available.

Figure 49: 2005-06 Ratio of PSA Fund Balances to Current Operating Expenses



For many of these reasons PSA fund balances are lower than their traditional LEA counterparts on average, centering near five percent as shown in **Figure 49**, rather than the 11-15% characteristic of traditional LEAs. When the PSA average is further subdivided by age of the PSA, however, **Figure 50** shows that PSAs started six or more years ago approach traditional averages, while those less than two years old hold much smaller proportional fund balances.

Comparing PSAs to other PSAs often provides PSA governance boards with more useful information about the consequences of their policy decisions. **Figure 51**, while not particularly informative in the size at which it can be reproduced here in report format, is much more interesting in larger chart format where school names can be made legible. It illustrates a series of charts that Michigan Department of Education (MDE) staff makes available to PSA boards to show how their schools "stack up" against the universe of 230 other PSAs, which all operate under the same fiscal conditions and face the same fiscal challenges. Reflective conversation among board members, and pointed questions for ESP administrators, often flow from seeing a PSA's relative performance compared to its peers.

Figure 50: 2005-06 Average Fund Balance Ratio by Age of PSA

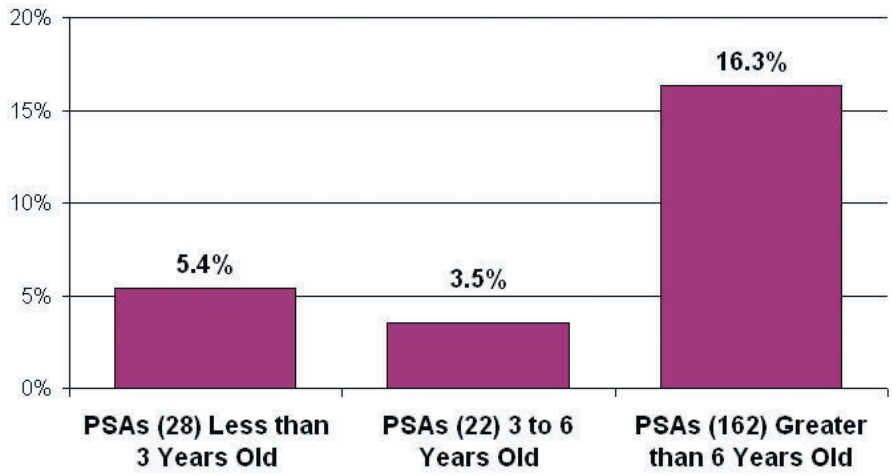
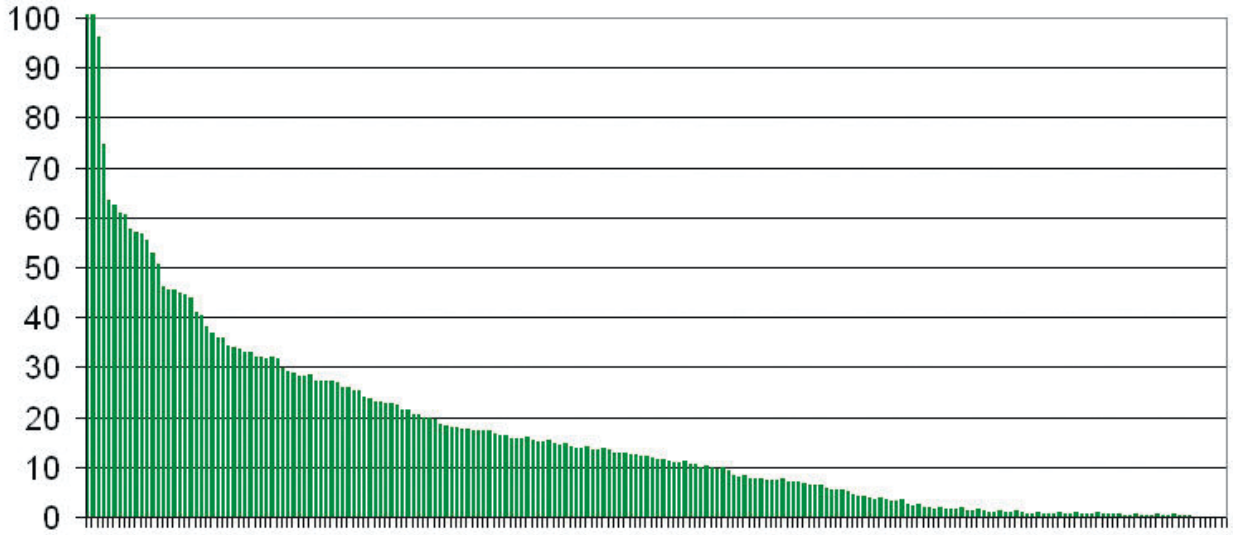


Figure 51: 2005-06 Range of PSA Fund Balances



Expense Ratios

School accounting divides expenses into three broad categories:

1. **Instruction**
   teaching of students in classrooms, including special education.
2. **Instructional Support – Support Services**
   including speech therapy, counselors, nurses, library, etc.
3. **Administrative Support – Support Services**
   including business operations, facility operations, and maintenance.

Availability of Expenditure Information for PSAs

Another crucial piece of the financial picture of charter schools is how they spend the funds available to them. Some people are under the misperception that details of school expenditures are not available for PSAs because the non-profit or for-profit ESPs that operate many of them do not have to disclose as much financial information as traditional LEAs. While it is true that the management companies themselves are not, for instance, subject to Freedom of Information Act (FOIA) requirements or CEPI's Financial Information Database (FID) reporting requirements, the PSA boards that hire them are subject to both. The PSAs must require the ESPs that operate their schools to comply with financial disclosure requirements.

Traditional LEAs spend funds directly and distribute expenditures over "functions" or purposes (See examples in Column 1 below). They then show through six "object codes" (see Columns 2-7) how the money was spent for that purpose. The resulting grid looks like this:

Functions	Salaries 1xxx	Benefits 2xxx	Purchased Services 3-4xxx	Supplies 5xxx	Capital Outlay 6xxx	Other 7-8xxx	Total
Instruction 1xx							
Support Services 2xx							
Community Ed 3xx							
Facility Acquisition 45x							

Because the mechanism by which PSA boards hire their ESPs is contractual, any payments to the ESP for use on the school's behalf are recorded in the "purchased services" column. If this were the total reporting required, it would indeed be true that much of the PSA's expenditures would be masked as ESP transfers. However, FID reporting requirements specify that if more than half of a school's expenses are "purchased services," the school must file an additional "ESP Detail" report which takes the total of "purchased services" and spreads them out over the other object codes (columns) to show how the contractual funds were spent. By combining both reports, the full picture of PSA spending is available in identical detail to traditional LEAs.

Comparing Operating Expense Ratios Judiciously

Comparing the percentages of Current Operating Expenses (COE) that PSAs and traditional LEAs devote to instruction, instructional support, and administration is difficult since facility lease or purchase must come out of PSA operating expenses. On the other hand, lunches, transportation, athletics, and co-curricular activities are part of most traditional LEAs, but not all PSAs. In addition, as noted in the revenue section, the "pies" being split up here are different sizes; some PSAs receive 15-20% less per pupil revenue. Given those cautions about comparisons, on average, **Figure 52** illustrates that PSAs spend lower percentages of their expenses on instruction.

Figure 52: 2005-06 Percentage of Operating Expenses Spent on Instruction

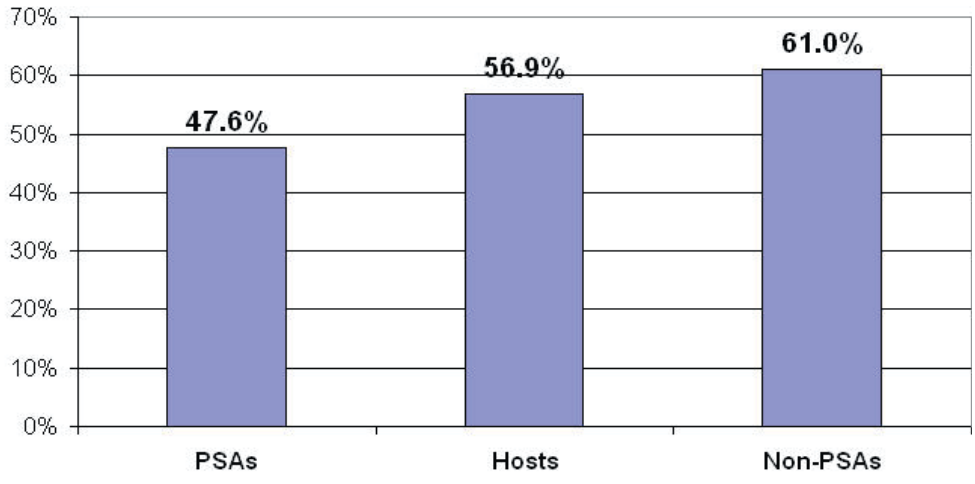
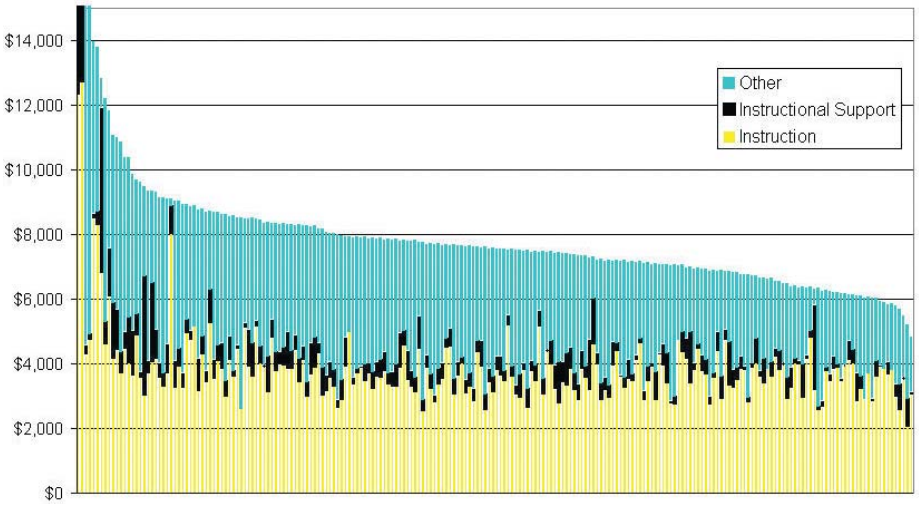


Figure 53: 2005-06 Range of PSA Percentages for Instruction/Operating Expense

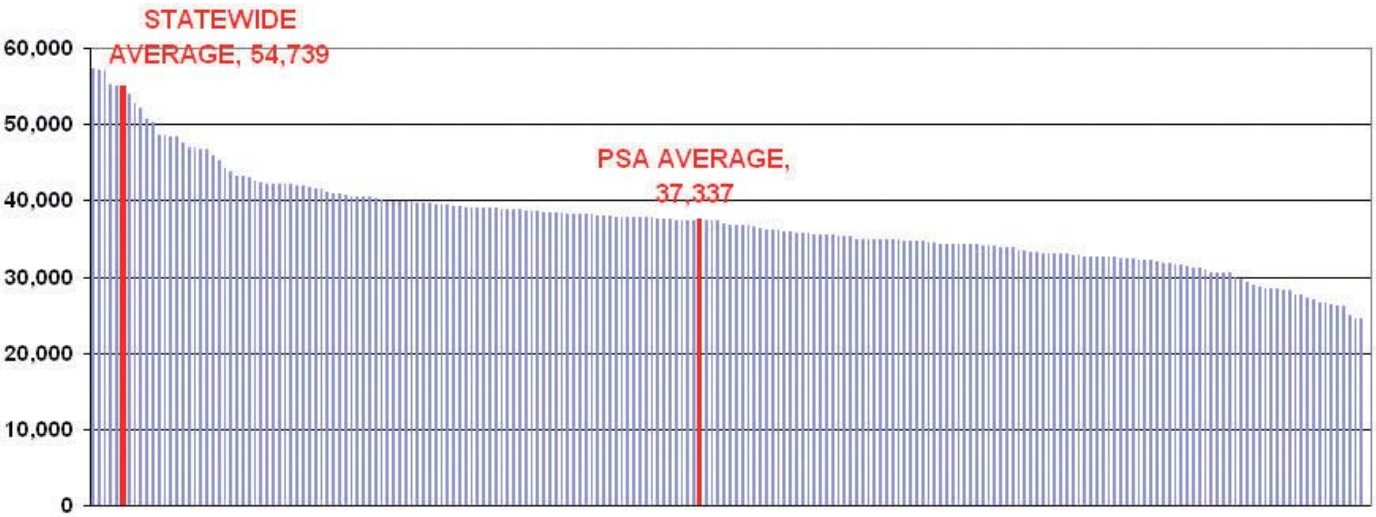


Teachers' Salaries in Public School Academies

Analysis of teacher salaries requires the same combination of FID and ESP Detail reports described above for other expenditures, but with those two reports in hand, the full picture emerges. Salaries for PSAs' teachers averaged $36,583, $17,376 less than Michigan's average salary of $53,959 statewide. Other data suggest that one contributing factor is that PSA teachers are relatively new. Figure 54 shows the distribution of all 230 PSAs.

Within the ranks of PSAs, more equitable comparisons can be made; these illustrate a surprising range in the percentage of operating funds dedicated to instruction. **Figure 53** is another example of a chart MDE uses with charter school governance boards to allow each board to see how its use of funds compares to other PSAs, as a basis for conversation with ESPs or school administrators. It is included here to illustrate the range of ratios.

Figure 54: 2005-06 Range of PSA Average Teacher Salaries



Education Service Providers

EDUCATION SERVICE PROVIDERS (ESPs)

PSA Boards in Michigan are permitted by statute to contract with ESPs to purchase services involved in running their schools. Roughly two-thirds (61%) of Michigan's PSA Boards (serving 67% of charter students) have opted to hire an ESP for portions of their work. These contracts range from facility management to staff and personnel management, accounting and payroll, curriculum development, and professional learning services for administrators and/or teachers. Michigan's percentage of ESP-managed schools far exceeds the national average of 10%, as well as the next highest states, Ohio (33%) and New York (26%).

The 20 ESPs which serve multiple schools in Michigan are shown in **Figure 55**. A single bar represents the 60 "self-managed" PSAs which do not contract for educational services. Another bar aggregates the 30 PSAs that contract with single-client ESPs associated with only their own PSA. Included among the 20 are seven nationally-recognized service providers also active in other states; those ESPs' bars are light-colored in Figure 55.

Figure 55: 2006-07 Students Served for PSA Boards Hiring the Same ESP

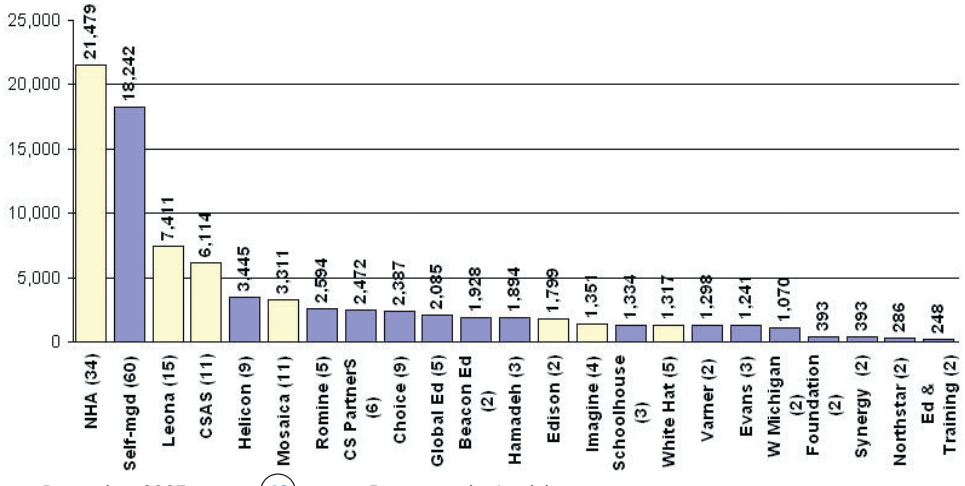
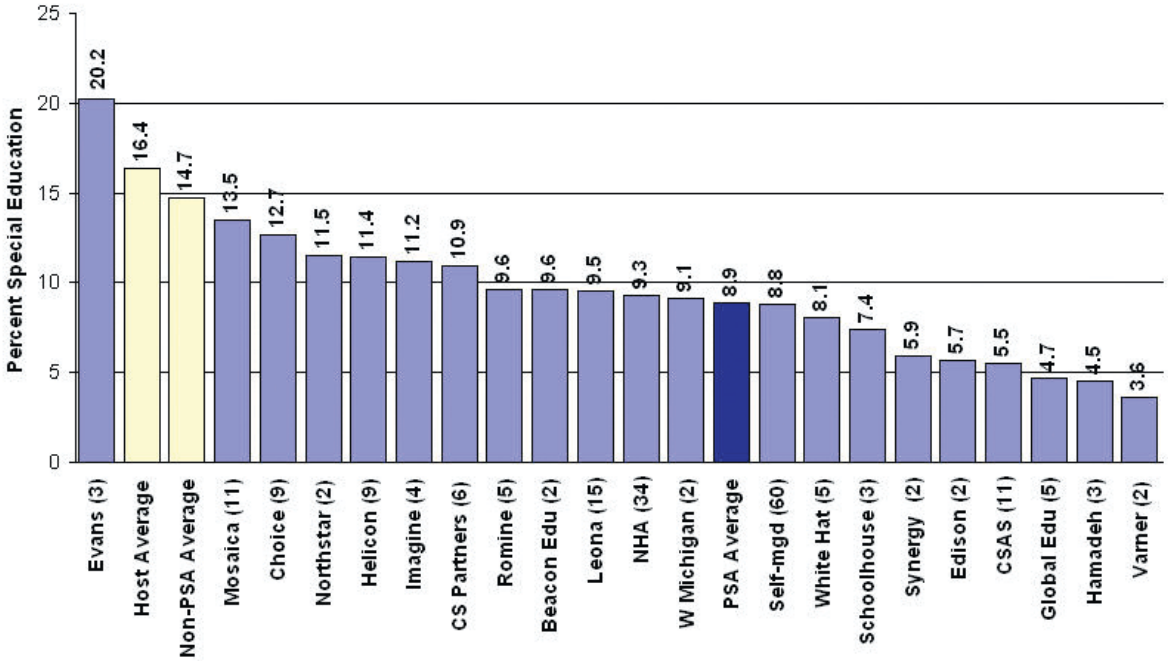


Figure 56: 2006-07 Special Education Students Served for PSA Boards Hiring the Same ESP



Figures 56-57 profile the special/general education status and economic status of students in Michigan PSAs by clusters of Boards who hire the same ESP. The PSA average is shown with a darker bar, and host district and non-PSA comparisons with light bars.

Only those ESPs responsible for providing curriculum, instruction, or assessment services should logically be held accountable for students' academic success. Thus, a smaller subset of ESPs are represented in the following charts, that examine academic performance for clusters of PSAs whose Boards have hired the same ESP.

Figure 57: 2006-07 Students Eligible for Free/Reduced Lunch Served for PSA Boards Hiring the Same ESP

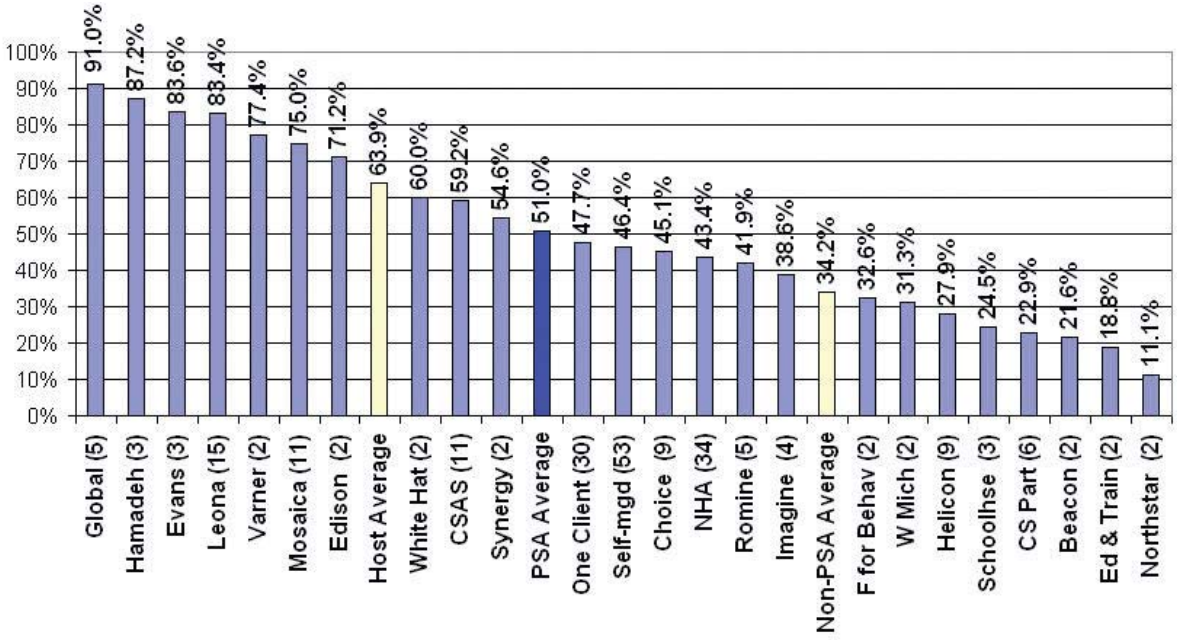


Figure 58: 2006-07 Grades 3-8 MEAP Proficiency for PSA Boards Hiring the Same ESP

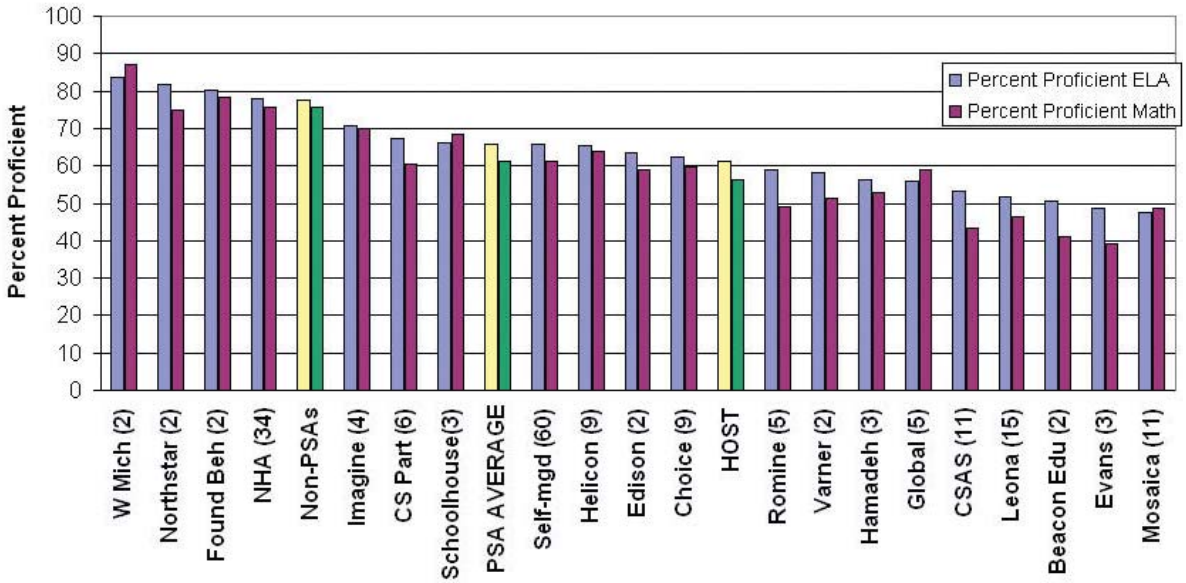


Figure 58 illustrates Grade 3-8 fall 2006 MEAP proficiency aggregates; **Figure 59** does the same for 2006-07 high school scores, while omitting the data points for high schools where less than 100 students reported.

Figure 59: 2006-07 High School MME Proficiency for PSA Boards Hiring the Same ESP

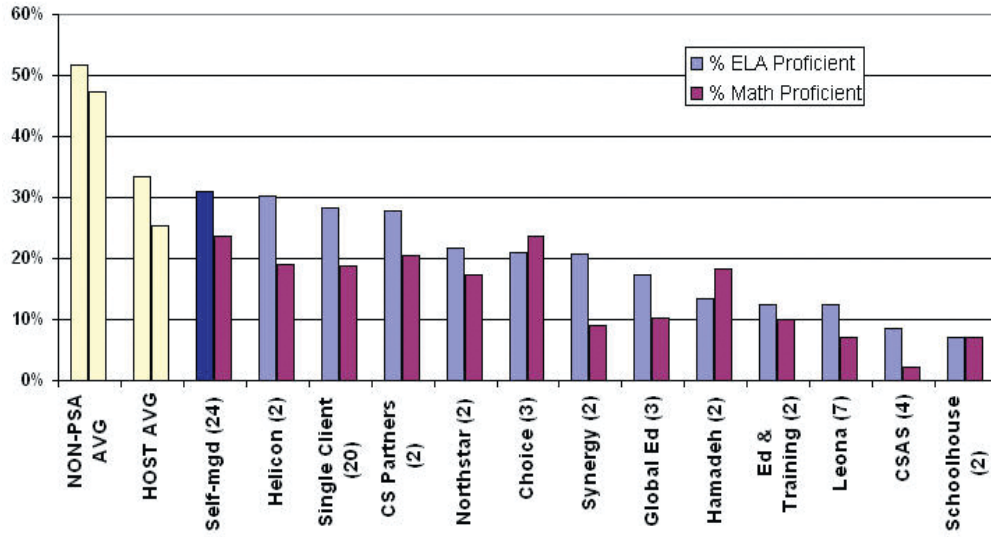


Figure 60: 2006-07 AYP for PSA Boards Hiring the Same ESP

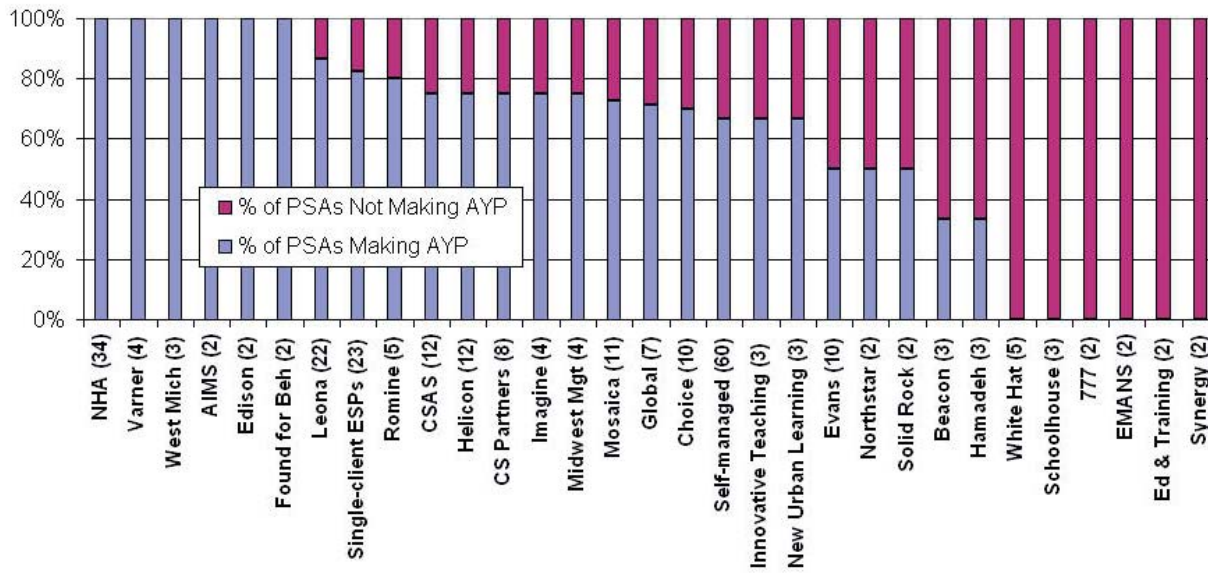


Figure 60 continues the examination of clusters of PSAs whose Boards have hired the same ESP by analyzing what proportion made AYP during the 2006-07 school year. **Figure 61** displays the same clusters by the proportion which were in various phases of NCLB sanction during the 2006-07 school year.

Figure 61: 2006-07 NCLB Phases of School Improvement for PSA Boards Hiring the Same ESP

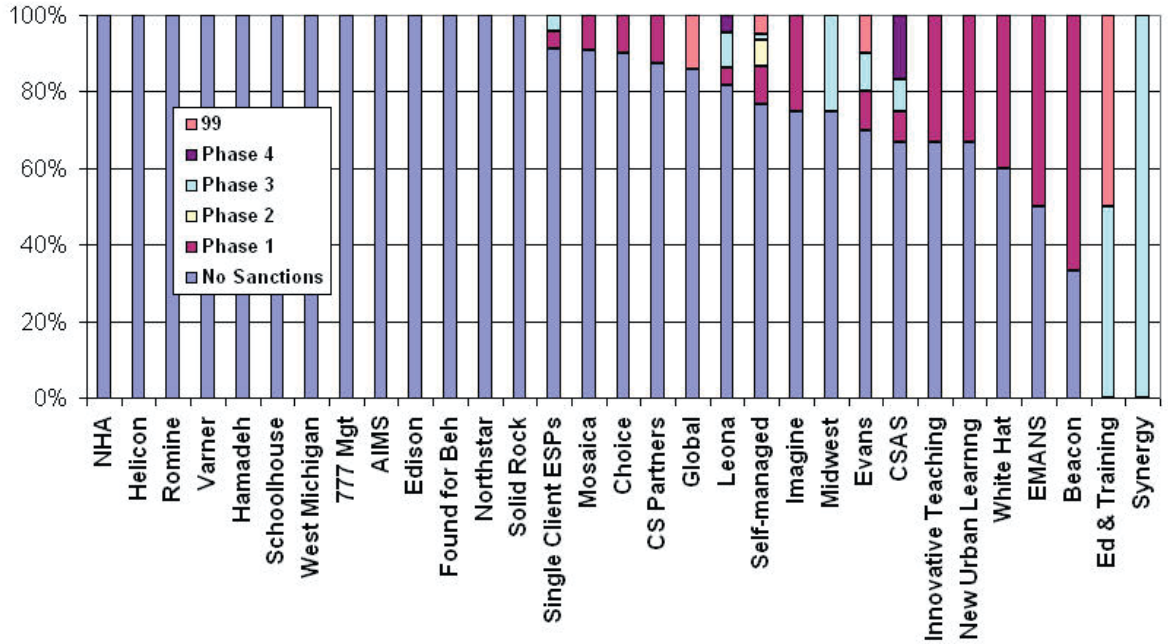


Figure 62 displays instructional percentages reported by all schools that hired the same management company to illustrate the wide range of expense patterns Boards are getting for their money.

Figure 63 displays teacher salaries, sorted into clusters of PSAs whose Boards have hired the same ESP. Again, the more powerful expanded version of these charts ranks individual PSAs and allows each PSA Board to see where it fits in the range of Michigan charter schools. MDE is working to make this information available to PSA Board members, as a tool for their deliberations as they choose whether to hire an ESP to manage part or all of their operations.

Figure 62: 2006-07 Instruction as a Percent of Expenses for PSA Boards Hiring the Same ESP

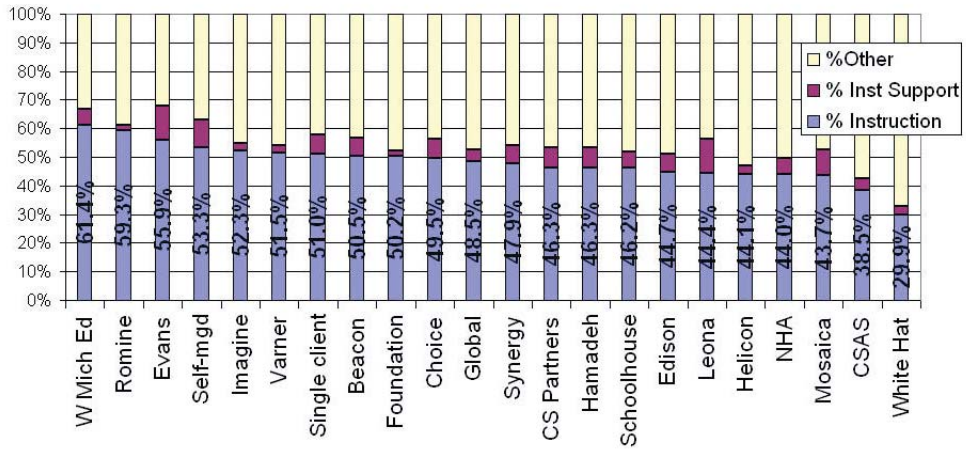
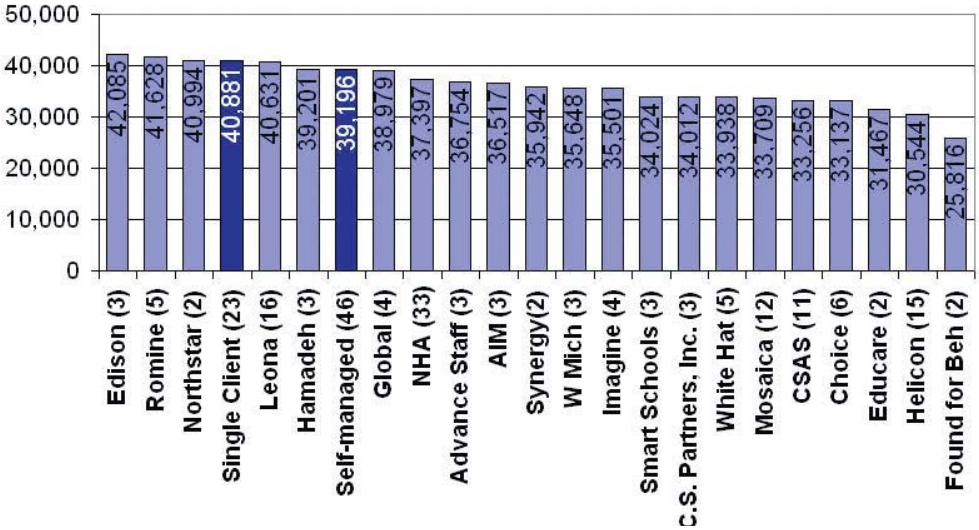


Figure 63: 2005-06 Average Teacher Salaries for PSA Boards Hiring the Same ESP



PROGRESS ON CHARTER SCHOOL ISSUES

During the 2006-07 school year, significant progress has been made on several issues discussed in last year's Report to the Legislature. For one issue initially thought to require legislative action (record retention) MDE has found resolution through administrative means. Other issues (rulemaking authority, wind-up/dissolution and ESP oversight) show progress, but continue to require legislative action. MDE has requested additional staff for its Public School Academy Unit as an enhancement in the Fiscal Year 09 Executive Budget.

Student and Business Records after PSA Closing

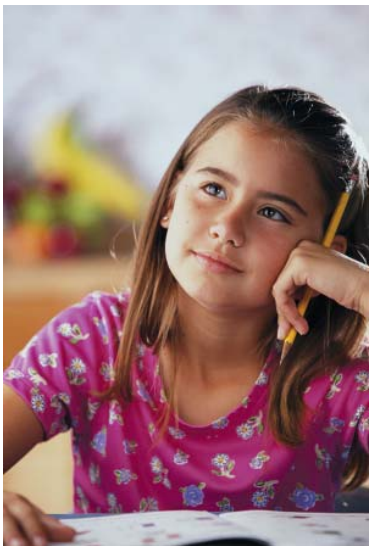
The Issue: When a PSA closes, statute does not specify a uniform repository for its business records or for student records that are not transferred to a receiving school. Students in search of a transcript in future years, or employees in search of proof of employment, for instance, find it difficult to track down the documentation they need.

Administrative Solution: MDE's **checklist for wind-up and dissolution** now includes a standard direction that student records be placed with the ISD, and business records with the authorizer. The practice is working well, and becoming consistent enough to be predictable for those seeking the records later. PSA Boards may negotiate storage fees to be paid up-front to the ISDs for managing the records. As a way of "**darkening the dotted line"** between ISDs and MDE, recent dialogue between the SBE and ISDs has made explicit many regionally-specific roles ISDs are asked to play on behalf of the state's educational system. ISDs tend to see this record retention as an example of one such role and have, without exception, proved willing to take on this task even in the absence of statutory direction.

Rulemaking authority to set authorizer incentives for PSA quality and standards for suspending authorizing authority

First Issue: The Superintendent of Public Instruction has no rulemaking authority to establish standards that require authorizers to improve the quality of academic performance for the PSAs they authorize.

Administrative Solution: **Improving the quality of teaching and learning** in Michigan charter schools is a goal shared by MDE and Michigan authorizers. A working partnership that combines the complementary types of authority held by the two entities is proving powerful to accomplish the shared goal. Authorizers' spring 2006 strategic plan includes a commitment to "clear space for new growth in high-quality charter schools by terminating charters that have proven unsuccessful according to contractual criteria." This renewed strategic commitment to improving school quality coincided with MDE's opportunity to redesign



its federally-funded start-up grant program, with the goal of bringing stronger, more diverse and visionary PSAs to the table when authorizers are ready to entertain charter applications.

The resulting start-up grant program brought to Michigan from the U.S. Department of Education (USDOE) approximately $7 million per year for 3 years from 2007 to 2010. The redesigned grants differ from previous grants in important ways: Several authorizers have agreed to leave their application windows open between periods in which they are actively considering issuing a charter. This allows many more non-management-company-affiliated community-based charter developers to qualify for federal grant funding by submitting a charter application to an authorizer. From this broader pool of would-be charter designs, the grant competition can select the strongest 10-20 applicants to receive planning grants that will further develop and fine-tune their teaching, learning, and data management methodologies, as well as resolve facility, management, and governance issues.

During the planning grant period, a new requirement for technical assistance will ensure that prospective governance Board members and the development team thoroughly understand the role of an autonomous Board, get a grounding in school budgeting and finance, work with their ISD to ensure compliance with all special education requirements, and prepare to collect and report required data to CEPI. The technical support program will also require/assist grantees to compare their proposed design to nationally recognized designs with demonstrated success in radically improving at-risk student performance, graduation rate, and post-secondary success.

MDE and authorizers will continue administrative efforts to resolve this issue.

Second Issue: The Superintendent of Public Instruction has statutory authority to **suspend an authorizer's power to authorize** if (s)he finds that an authorizer is not exercising adequate oversight. However, the Superintendent has no rulemaking authority to establish standards or criteria by which to act.

Administrative *Progress:* Within its existing authority, MDE has taken the lead in developing a voluntary "Assurances and Verification" system by which each authorizing entity assures the state that it is fulfilling its statutory oversight responsibility. MDE on-site visits then verify that the systems are operating as described. This MDE-authorizer collaboration has established a common core of expectations for authorizer practice.

Another example of MDE's leadership occurred when twice within the last two years, PSAs lost their charters from a first authorizer and solicited new charters from a different (and inexperienced) authorizer. The Superintendent communicated an authorizing expectation by requiring each potential new authorizer to provide a documented rationale for granting a fresh charter. In addition to all the normal documentation required for a new charter, the Superintendent asked for evidence that the new authorizer had informed itself of the reasons the previous charter had been revoked, had done its own due diligence to form its own conclusions about the facts involved, and had remedied the existing problems in some way. As a result, in one case, the potential new authorizer declined to issue the charter. In the other, the LEA did charter the PSA, but did so by imposing nearly identical conditions to those that would have been required by the old authorizer. No rulemaking authority was required.

Thus, by analogy to "case law," a set of expectations is being developed through the Superintendent's administrative actions. To date, the Superintendent has indicated that he expects authorizers to:

- Establish and consistently utilize oversight systems that ensure compliance with eighteen fundamental statutory requirements for Michigan PSAs;
- Exercise due diligence when considering whether to charter a school whose charter has been rejected by another authorizer, in order to ensure that the continuity of accountability is not interrupted.

In the absence of statutory authority to establish formal criteria, MDE will continue to work situationally in this way with authorizers. The approach depends heavily, however, on voluntary cooperation of all active authorizers. While that collaboration has been productive and consistent to date, should a single authorizer not choose to participate or should a confrontational situation develop, formal criteria would provide a more objective basis for MDE action.

Legislative Recommendation: MDE recommends that the Legislature assign to MDE the authority to promulgate rules.

Wind-up and Dissolution

The Issue: A PSA charter in Michigan can be held only by a particular type of non-profit corporation – a PSA corporation – which is formed during the authorizing process at the direction of a Michigan authorizer. The authorizer's ultimate authority with regard to the PSA consists of its ability to terminate the contract. However, once the authorizer exercises its option to end the contract, it loses all legal relationship with the non-profit. It then lacks authority to direct the governing Board of the PSA corporation to wind up its affairs and dissolve the corporation in a timely way. Even well-intentioned PSA Boards have often failed to complete the sometimes lengthy process of liquidating assets, terminating leases, litigating conflicting claims, accounting for public funds in a final audit, and dissolving the no longer active corporation. Further, an ex-PSA Board that has hired an ESP to operate its school cannot rely on that staff to carry out wind-up activities, since the interests of a Board and its ESP diverge sharply as the ESP may become one of the creditors of the Board. A neutral third party is needed to ensure that wind-up activities are pursued effectively and transparently.

Administrative Progress: MDE and the Michigan Council of Charter School Authorizers (MCCSA) have developed a **model intergovernmental agreement.** In the agreement, the PSA Board, the authorizer, and the State Treasurer agree that upon contract termination, a trustee would be appointed and charged with completing wind-up and dissolution in a timely way. Legal review of the draft document is underway, and if this or a modified agreement can be finalized, authorizers could voluntarily incorporate it into their practice. Authorizers would describe their systems for implementing the agreement as a 19th element to the "Assurances and Verification" system. MDE could then verify the practice. Experience to date with trustee-directed wind-ups is encouraging; even when the process becomes litigious and complex, trustees have responsibility

and authority to follow it through to clean, formal dissolution of the corporation.

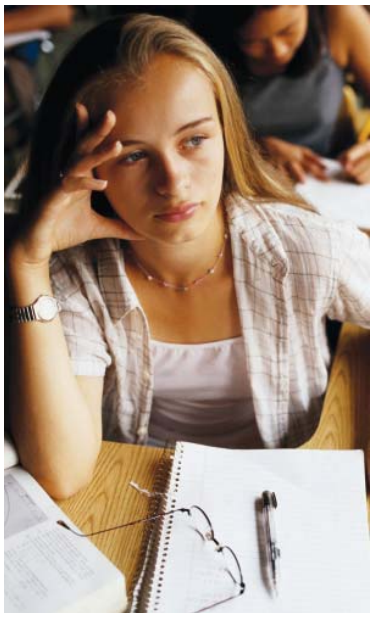
Legislative Recommendation: MDE recommends that the Legislature specify that PSA contracts must include a mechanism to identify an impartial trustee or petition the court for appointment of a receiver to undertake wind-up and dissolution of PSA corporations in the event that the charter is terminated for any reason.

Oversight of Management Companies

The Issue: PSA Boards are allowed to contract with (non-profit or for-profit) ESPs to operate some or all aspects of the school. Arrangements between the two groups require special scrutiny for several reasons:

- Recommendations for PSA Board candidates come to the authorizers (who appoint them) from the charter applicant or the operating school, which sometimes means that ESP-employed administrators are involved in recruiting and recommending Board members.
- Some ESP contracts are comprehensive "turnkey" agreements that take all the funds available to a PSA Board and in return deliver a fully-functioning school. If a Board becomes dissatisfied with its ESP's service, breaking the relationship is difficult. Changing ESPs means simultaneously replacing facilities, staff, curriculum, materials, and equipment. This kind of ESP-Board relationship constitutes what auditors consider to be a "related party transaction" because one party is constrained from negotiating its own best interests. Related party transactions are not prohibited, but they require disclosure and establishment that the transaction takes place at "fair market value."
- Contracted ESP employees can be involved in developing budgets for the PSA which set the rates at which ESP services will be reimbursed by the PSA Board. This can compromise the Board's ability to defend its own interests when they differ from the ESP's interests.
- Unless the PSA Board hires staff that reports directly to them to review and comment on proposals developed by ESP-hired staff, PSA Boards can be unaware of multiple or overlapping fees that may be charged for the same services in detailed budget line items.

The degree to which authorizers examine, approve, or impose conditions on PSA-ESP contracting varies because there are no specific statutory



requirements for authorizer review of ESP agreements.

Administrative Progress: MDE's Assurances and Verification system, coupled with authorizers' own concern about the issue, is increasing authorizers' voluntary ESP scrutiny. **Review of ESP contracts before execution** is currently required by eight authorizers. Another large authorizer reviews the contracts after the fact, but requires Boards to obtain independent legal counsel's opinion of a management contract before it is signed. Together, these authorizers are responsible for 187 (81%) of 230 PSAs, and 150 (97%) of 155 PSAs using ESPs. The remaining authorizers monitor ESP contracts after the fact and investigate irregularities.

Further, ESP oversight has become a major element of the **voluntary professional authorizer standards** that have been developed by MCCSA (with MDE staff collaboration and support). MDE will participate during the next year in an expansion of these standards to include a peer-reviewed evaluation process. This process is expected to build greater transparency into the practice of charter school authorizing and to establish a strong knowledge base of best practices and effective strategies for authorizers to use now and in the future. In conjunction with the "Assurances and Verification" system which ensures minimal compliance, this approach will recognize and certify authorizers whose work is exemplary and will provide formative feedback to those in between. Attention to ESP relationships will play a major role in this system.

Legislative Recommendation: MDE is currently working with the Legislature to require authorizers to review and permit them to disapprove contracts between PSA Boards and ESPs. MDE continues to urge legislative action.

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