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Nonclassroom-Based Charter Schools in California and the Impact of SB 740

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Prepared for the California Legislative Analyst's Office

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Preface

In 1992, California became the second state to enact legislation that created charter schools. Charter schools are publicly funded schools that have the flexibility to operate outside normal district control. These schools are designed to provide greater educational choice to families, reduce bureaucratic constraints on educators, and provide competitive pressure to induce improvement in conventional public schools while remaining publicly accountable.

One of the rapidly proliferating movements within the larger charter school movement in California has been the establishment of nonclassroom-based charter schools. These are charter schools that offer significant amounts of instruction in nonclassroom settings. The instruction in these schools generally takes the form of independent study, home study, or some combination of these two with classroom-based instruction.

Since nonclassroom-based schools use facilities and teachers in nontraditional ways, it has been challenging to ensure that the public per-pupil funding they have received has been well spent. Numerous media reports of fiscal abuses in these schools led to the passage of Senate Bill 740 (SB 740) by the California legislature in October 2001. This bill strengthened the oversight of nonclassroom-based charters and established a set of requirements that, if not met, would lead to funding cuts. Since the implementation of the new regulations began, concerns about their impact have grown. In April 2003, the California Legislative Analyst's Office (LAO) commissioned a team of RAND Corporation researchers to perform an evaluation of the SB 740 oversight process. This report is the result of that evaluation.

While this report is concerned specifically with the impact of a particular piece of legislation and its associated regulatory process on nonclassroom-based charter schools in the state of California and is thus of particular interest to education policymakers in California, it also offers general insights regarding this relatively new and underresearched type of public school that may serve to inform a broad audience of policymakers, educators, and the general public interested in the field of public education.

This study fits into a larger body of research conducted by RAND Education on school reform, assessment and accountability, and teachers and teaching, and represents a follow-up to RAND's evaluation of the overall charter school movement in California entitled *Charter School Operations and Performance: Evidence from California* (Zimmer et al., 2003) conducted previously for the LAO.

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Summary

Schools that provide nonclassroom-based instruction have represented a rapidly proliferating segment of schools within the charter school movement in California over the past decade. Nonclassroom-based schools differ from traditional schools in that they deliver instruction outside the confines of the classroom setting. Nonclassroom-based instruction encompasses homeschooling and various forms of independent study, including computer-based instruction using software modules and teacher-directed distance learning. Nonclassroom-based schools tend to serve somewhat different students from those found in other schools—that is, students seeking personalized instruction and a pace tailored to their needs.

The potential for the misuse of public funds has been high in nonclassroom-based charter schools, however, due to the nature of the instruction they provide. They use facilities and teachers in a different manner from other types of schools and may have lower cost structures. Therefore, disproportionate amounts of public per-pupil revenues may end up in the hands of school administrators in these schools. In October 2001, the California legislature passed SB 740 to strengthen the oversight of nonclassroom-based schools and implement cutbacks in state funding for schools failing to meet specified spending standards. At this point in time, the SB 740 funding determination process has been implemented for three consecutive school years and has entered its fourth year. Despite evidence of success in combating profiteering, the first three years of implementation have been turbulent. Although funding cuts have been phased in gradually over time, the process has created confusion, and the administrative burden placed on nonclass-

room-based schools has been significant. In addition, concerns have arisen that the process may have resulted in fiscal instability, an inefficient allocation of resources, and a reduction in innovation.

In April 2003, the California LAO commissioned a team of RAND researchers to perform an evaluation of the SB 740 oversight process and its impact on nonclassroom-based charter schools. The evaluation addressed five broad questions:

- What does the SB 740 funding determination process entail?
- Has the process fulfilled the directives of the legislation?
- What has been the impact of the SB 740 funding determination process on operations and instruction in nonclassroom-based schools?
- Does the process provide appropriate and effective oversight?
- How can the SB 740 funding determination process be improved?

We addressed these questions through a research design strategy that included interviews with stakeholders involved in the SB 740 process, analyses of state funding data, and analyses of data from surveys of nonclassroom-based charter school principals and teachers.

Findings

This evaluation produced the following findings with regard to our research questions.

What does the process entail? In Chapter Three we describe the SB 740 funding determination process in detail—both the way it has evolved over time and the way it currently works.

The process entails the collection of financial data from charter schools offering significant amounts of nonclassroom-based instruction and the determination of funding through the use of a fairly straightforward mechanism—the meeting of thresholds. SB 740 requires that nonclassroom-based charter schools meet three main criteria to receive full funding: (1) at least 80 percent of total revenues must be spent on

instruction, (2) at least 50 percent of public revenues must be spent on certificated-staff salaries and benefits, and (3) the pupil-teacher ratio must be equal to or lower than the pupil-teacher ratio in the largest school district in the county or counties in which the school operates. A school that fails to meet these criteria may receive substantial cuts in its funding. Nearly half the nonclassroom-based charter schools in the state have experienced funding cuts as a result of SB 740. While the funding determination process is simple in concept, this process, as we discuss below, might not be meeting the public-accountability needs envisioned.

Has the process fulfilled the directives of the legislation? The process has fulfilled many of the explicit directives of the legislation.

The process was intended to reduce the possible profiteering of charter school operators offering nonclassroom-based instruction. Our analysis indicates that profits (as measured by revenues minus expenditures) for nonclassroom-based schools had turned into losses by the third year of the SB 740 process; thus it is reasonable to assume that profiteering has been reduced.

In addition, in an effort to meet thresholds for full funding, nonclassroom-based charters have substantially increased both instructional spending and spending on certificated-staff salaries as a proportion of revenues. Schools have shown only a slight reduction, however, in pupil-teacher ratios. In examining funding determination data provided by the state, we found that nonclassroom-based schools had made several adaptive responses to SB 740 and that the proportion of schools receiving full funding increased over time.

Thus, we conclude that along several fiscal dimensions, the impact of SB 740 has been significant and largely in accordance with the explicit goals of the legislation. Other evidence, however, as described below, indicates that the process could be improved.

What has been the impact of the process of SB 740 on operations and instruction? Our analysis cannot determine causality, but indicates that the implementation of the process might be associated with both positive and negative effects on operations and instruction.

On the positive side, in addition to increased spending on instruction and evidence of reduced profiteering, the fiscal transparency

imposed by the SB 740 funding determination process has prompted schools to increase their attention to resource allocation and, in some cases, become self-regulating in their requests for per-pupil funding.

On the negative side, the first three years of implementation of SB 740 have been turbulent. Although funding cuts have been phased in gradually over time, the process has created confusion, and the administrative burden placed on nonclassroom-based schools has been significant. In addition, concerns have arisen that the process may have resulted in fiscal instability, an inefficient allocation of resources, and a reduction in innovation. The losses posted by nonclassroom-based charters by the third year of the SB 740 process also raise concerns that the changes schools are making in order to receive full funding, or the funding cuts themselves, are placing some schools in fiscal jeopardy.

Furthermore, although there is general agreement among stakeholders that instructional spending should consume a large proportion of revenues, the impact of the instructional-spending threshold may not have been entirely positive in past years due to its failure to incorporate the cost of facilities adequately into instructional costs. The strain on facilities reported by principals, teachers, and other stakeholders may have had an adverse impact on instruction. This issue has largely been resolved for future cycles, however, with the recent introduction of a new facilities formula to be applied to instructional spending in the 2004–2005 school year's funding determinations. Thus, with the resolution of the facilities issue, the relevance of this SB 740 requirement to educational quality is no longer being questioned.

Finally, our analysis of the surveys of nonclassroom-based principals resulted in other interesting findings, which we did not classify as positive or negative but are relevant to this discussion. For instance, a majority of principals reported increases in nonclassroom-based instruction and the percentage of budget invested in technology since the implementation of SB 740 began. These findings suggest that nonclassroom-based approaches to instruction had not been curtailed by SB 740 and that technological innovation had still been possible notwithstanding.

Has the process provided appropriate and effective oversight? We found evidence that some aspects of the SB 740 funding determination process were not appropriate or effective.

The fiscal thresholds were established using assumed spending patterns of public schools generally. The use of these fiscal thresholds assumes that public schools have the correct allocation of instructional and certificated spending. Using financial data submitted by nonclassroom-based charter schools in compliance with SB 740 and state data on school district spending patterns, we compared the proportion of nonclassroom-based and traditional school districts meeting these thresholds and found that almost all traditional public school districts met the instructional-expenditure threshold, but a substantial proportion of school districts did not meet the certificated-staff threshold. In fact, a higher proportion of nonclassroom-based schools met this threshold by the third year than traditional public school districts did when the criteria were established. This finding raises questions about the development of the certificated-staff salary threshold.

We also examined whether SB 740 has increased instructional exposure for students. Although we found that the process has increased the proportion of expenditures spent on certificated staff and instructional activities, we found almost no correlation between the growth in these expenditures and the number of certificated teachers and pupil-teacher ratios within the schools, suggesting that the certificated-staff requirement may have led more to increases in compensation for existing teachers than increases in the number of staff. This hypothesis was supported by data from our survey in which a majority of nonclassroom-based school principals reported that in the three years since SB 740 came into effect, teacher salaries had increased beyond the cost of living. In addition, in our survey of nonclassroom-based teachers, the numbers of students teachers supervised or instructed and the amount of time they spent per student did not correlate significantly with the school-level measure of the percentage of total school public revenues spent on certificated salaries.

Finally, in the survey of nonclassroom-based school principals, principals suggested that the burden of compliance with SB 740 had been high and that this was disproportionately the case for small schools. In addition, principals reported finding it difficult to create and implement a sound fiscal plan as a result of the process.

From the above we conclude that while the process has provided oversight, this oversight might be having deleterious effects, and that some factors used in the oversight process are not adding significantly to the public accountability, while significantly burdening schools. Thus, despite the financial savings to the state and adaptations on the part of nonclassroom-based charter schools to the requirements of SB 740, the success of the legislation as a mechanism for improving education for California students is unclear. In this study, we present evidence that some inefficiencies, unfavorable budgetary trends, and changes in operations may have occurred as a result of SB 740 and that its wide net may have caught many genuinely purposeful schools as well as the few schools in need of correction.

How can the process be improved? Our analysis and interviews indicate several ways in which the process could be improved.

Underlying the logic behind SB 740 are two questionable assumptions. One is that schools delivering substantial amounts of nonclassroom-based instruction have—or should have—a lower cost structure, and the other is that the resources needed to deliver this type of instruction can successfully be gauged by fixed percentages of revenues. There are problems with both of these assumptions.

First, instruction in nonclassroom-based schools may be less costly given the different educational technology that they employ. On the other hand, they may serve a population of difficult students who thus may be more costly to educate. Since nonclassroom-based charters often serve students at the highest and lowest ends of the achievement spectrum, it may be the case that their instructional technologies require as much or more funding than those used in traditional classroom settings.

Second, no consensus has been reached at either the state or the national level regarding the appropriate amount of resources needed to ensure an adequate or superior education in traditional classroom settings. It is as yet difficult to assert that a defensible relationship exists between specific allocations of resources and student outcomes. Our analyses showed that nonclassroom-based charter schools were in some cases held to a standard that many conventional public schools did not meet. These findings suggest that the state should step back and gain a more thorough and evidence-based perspective on the types of relation-

ships it would like to promote throughout the system. More study is needed to determine the appropriate cost of educating students, particularly students of different types. It is therefore problematic to assume that a fixed percentage of the funding that flows to classroom-based students may be adequate to educate an nonclassroom-based student. Nonclassroom-based students may be better served by policies that encourage their schools to invest in innovative, high-quality instruction tailored to their needs than by policies that result in shrinking the resources available to them.

SB 740 has sent a strong and important message to nonclassroom-based schools that they must be careful regarding the ways in which they use resources or face strong sanctions. It is appropriate, however, to reshape the regulations to fit a newly acquired understanding of how these schools operate within the context of all public education and to serve the needs of students more effectively.

Recommendations

Based on our findings, we recommend the following:

1. The state should continue to collect financial data from nonclassroom-based charter schools, but the process should be streamlined, simplified, and clarified to reduce the burden on schools, particularly small schools. The state should establish consistent guidelines for independent audits, and simplified, standardized accounting systems for small schools should be established in the near future to improve the ease and verification of reporting. Cross-referencing of other types of accounting reports and SB 740 forms should be clear, direct, and possibly automated.
2. The timing of the SB 740 funding determinations should be changed to occur earlier in the school year. Schools need greater certainty regarding funding decisions in order to allocate resources effectively.
3. The state should move away from a process that automatically cuts funding as a result of failure to meet a criterion threshold. Non-

classroom-based charter schools should be presumed to deserve full funding unless there are convincing signals that these schools should receive lesser amounts. A more appropriate mechanism would be to gather reasonable data across schools and to use these data in a deliberative, analytic process to determine which schools might need further oversight. In other words, the state should refine the set of indicators used in the SB 740 process to assess fiscal and overall performance and redefine them as signals that warrant investigation and possible audit rather than as criteria for implementing funding cuts.

4. It is beyond the bounds of this report to determine which indicators should be used. The state should consider the possibility of developing a set of benchmarks for nonclassroom-based charters that could be used to identify charters that are well outside the bounds of "normal" operation and might be deemed as needing further investigation. Benchmarks, such as the 80 percent instructional-spending threshold (amended by the new formula to include facilities costs) or a statewide pupil-teacher ratio threshold, should be established with respect to these indicators. The ratio of 50 percent of revenues spent on certificated salaries should not be included as an indicator, however, given that it has not been effective as a means of increasing the numbers or percentages of certificated teachers in nonclassroom-based schools. Student characteristics—such as the proportion and type of students with special needs or the proportion of at-risk students—should be taken into account when assessing a school's performance against benchmarks. There may be many reasonable causes for deviations from benchmarks. High pupil-teacher ratios, for example, might be acceptable in a school that supplies a high-quality distance-learning program. Low scholastic performance might signal the need for a closer look at instruction in a school, for example, but since this may be due to a student body with large proportions of at-risk students, schools in this situation should be fully supported and encouraged to invest in effective learning strategies rather than sanctioned.

SB 740 has produced some positive outcomes. It has helped curb abuses of the public trust and has increased the fiscal accountability of nonclassroom-based schools. It has increased the proportion of revenues devoted to instruction in these schools. These positive outcomes have come at a cost, however. The administrative burden placed on schools and on the state authorities has been considerable, and the link between some of SB 740's requirements and instructional quality has been weak.

Despite the difficulties that these schools have encountered as a result of the SB 740 process, the demand for nonclassroom-based instruction has remained strong in the state. Given that this type of instruction serves the needs of certain populations of students who may not be as well served in traditional classroom-based settings, it is advisable to reform SB 740 with a cost-effective process that oversees quality while better reflecting the nature of instruction in nonclassroom-based schools.

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Abbreviations

ACCS	Advisory Commission on Charter Schools
ADA	Average Daily Attendance
API	Academic Performance Index
CBEDS	California Basic Education Data System
CDE	California Department of Education
LAO	Legislative Analyst's Office
SACS	Standardized Account Code Structure
SBE	State Board of Education
SB 740	Senate Bill 740
SRG	Survey Research Group

CHAPTER ONE

Introduction

Background

Charter schools represent the fastest growing segment of the movement to promote parental choice in K–12 schooling, and schools that provide nonclassroom-based instruction represent a rapidly proliferating segment of schools within the larger charter school movement (Huerta and Gonzalez, 2004). Nonclassroom-based charter schools, like all charter schools, are publicly funded schools that have been granted the flexibility to operate outside normal district control. In exchange for greater autonomy, charter schools are monitored with respect to outcomes by their authorizers. What sets nonclassroom-based schools apart from other types of schools is the delivery of instruction outside the confines of the traditional classroom setting. The primary forms of nonclassroom-based instruction are homeschooling (in which instruction is delivered primarily by parents in the home), independent study (in which students, teachers, and parents create a study plan that is carried out independently by the student), and distance learning (in which students meet with teachers and other students online to receive instruction).

In California, nonclassroom-based charter schools emerged within a year after the California Charter Schools Act became law in 1992. According to enrollment figures provided by the California Department of Education (CDE), approximately 36 percent of charter schools reported that some percentage of their Average Daily Attendance (ADA) was nonclassroom-based in 2003–2004, and nearly 30 percent of all charter school students attended schools that offered nonclassroom-

based programs. In 2003–2004, there appeared to be nearly 160 charter schools in the state that offered some form of nonclassroom-based instruction. As these schools grew in number and popularity, a number of public officials began questioning an overall lack of accountability and expressed concerns that these schools could lead to profiteering (i.e., the extraction of unreasonably large profits, payments, or salaries) by individuals, districts, and nonprofit and for-profit organizations that operate nonclassroom-based charters. These officials reasoned that low overhead costs for operating a nonclassroom-based charter—based on the assumption that fewer brick-and-mortar facilities, teachers, and other services essential to traditional school settings are needed—have resulted in an excess of revenues over costs that invites profiteering by nonclassroom-based charter operators and their sponsoring districts (Huerta and Gonzalez, 2004).

These concerns were reinforced by a string of popular press articles that described apparent abuses of the public trust in these types of schools (e.g., Haddock and Seligman, 1999; Asimov, 2001a, 2001b, 2001c). In response to these concerns, Senate Bill 740 (SB 740) was passed by the California Senate and Assembly on September 14, 2001.[1] SB 740 instituted funding cutbacks to charter schools that operated substantial amounts of nonclassroom-based instruction if they failed to meet a set of financial criteria relating to instructional expenditures and pupil-teacher ratios. The legislation entrusted the State Board of Education (SBE) with the task of developing the criteria and funding determination process, specifying only that the determinations be made on the basis of indicators such as the total budget expended on instructional activities and certificated employees,[2] the ratio of teachers to pupils, and other factors the board might deem appropriate. To fulfill its responsibilities, the board developed and implemented an oversight process in

[1] SB 740 was first introduced in the assembly by Senator O'Connell on February 23, 2001. After numerous amendments, it was passed on September 14, 2001, and filed with the California secretary of state October 14, 2001. The bill amends Education Code 47612.5 and adds Education Code Section 47634.2. Pennsylvania, Ohio, and Wisconsin have also created policies to monitor nonclassroom-based charter schools.

[2] A certificated employee is defined as an individual in a position requiring certification who holds a credential, emergency permit, or waiver issued by the California Commission on Teacher Credentialing authorizing service in the public schools of California.

2001–2002 and modified it slightly in the subsequent 2002–2003 and 2003–2004 school years. Although the severity of funding cuts established by SB 740 was phased in gradually over the course of three years, the complexities of the funding determination process and the relatively stringent demands to conform to specific fiscal guidelines created widespread consternation among nonclassroom-based school personnel and charter school advocates. In addition, the administrative burden of compliance and oversight imposed both on these schools and on the state's educational authorities has been significant.

Purpose of this Study

In response to these concerns, the California Legislative Analyst's Office (LAO) commissioned a team of RAND Corporation researchers to perform an evaluation of the SB 740 oversight process and its impact on nonclassroom-based charter schools in April 2003. This task evolved as an extension of a larger evaluation of all California charter schools that RAND had previously conducted for the LAO. The report that resulted from the original task was entitled *Charter School Operations and Performance: Evidence from California* (Zimmer et al., 2003) and was issued in July 2003. In that report, students in nonclassroom-based charter schools were found to have lower scholastic-achievement scores than students in other types of charter schools or in conventional public schools.[3] In addition, evidence presented in the report suggested that nonclassroom-based charter schools had lower per-pupil expenditures than other schools. Given the controversy surrounding these schools and the need to assess the effectiveness of the measures established by SB 740, the LAO requested a follow-up study address-

[3] A number of studies find a positive association of homeschooling with scholastic achievement (Rudner, 1999; Ray, 2000; Rothermel, 2002), but these studies are subject to the selection bias introduced when comparison groups are dissimilar (Neal, 1997) or when students in one group have greater autonomy in choosing which tests to take and when to take them (Belfield, 2004). The RAND study attempted to mitigate selection bias through statistical modeling techniques. In addition, the RAND study looked at all nonclassroom-based charter schools as one group rather than home-school and independent-study charters separately, although these two types of schools might display different levels of performance.

ing these concerns. The new evaluation centering around the impact of SB 740 on nonclassroom-based charter schools is the subject of this report and addresses the following broad questions:

- What does the SB 740 funding determination process entail?
- Has the process fulfilled the directives of the legislation?
- What has been the impact of the SB 740 funding determination process on operations and instruction in nonclassroom-based schools?
- Does the process provide appropriate and effective oversight?
- How can the SB 740 funding determination process be improved?

While this study is primarily focused on the impact of a specific piece of legislation and its associated regulatory process on nonclassroom-based charter schools in the state of California, it also offers general insights regarding the issues surrounding this relatively new and underresearched type of public school that may serve to inform a broad audience of policymakers, educators, and the general public interested in the field of education.

Data and Methods

We have addressed the above research questions through a research design strategy that involves the analysis of both primary and secondary data. The primary data collected by the RAND team consisted of a survey of principals of all the nonclassroom-based charter schools in the state, a survey of a random sample of teachers in these schools, interviews of key policymakers and stakeholders, and site visits to schools.

The survey of principals was fielded during the winter of the 2003–2004 school year and yielded responses from 93 principals of the 122 schools that were eligible for and had participated in the SB 740 process, for a response rate of 76 percent.[4] The survey instrument was composed of questions designed to uncover the effects of SB 740 on specific aspects of school operations and to assess the amount of administrative burden

[4] Details regarding the sample and data-collection methods used in the principal survey can be found in Appendix B.

imposed on nonclassroom-based charter schools in complying with the law. In addition, it asked principals their opinions of possible strategies for reforming the funding determination process.

The survey of teachers was sent to a random sample of teachers in nonclassroom-based charter schools in the spring of 2004 and yielded responses from 227 teachers, for a response rate of 70 percent.[5] The sample represented 10–15 percent of the total number of teachers in nonclassroom-based charter schools. The survey contained questions designed to investigate the ways in which teachers used their instructional time, the amount of direct contact they had with students, their use of on-site facilities, their satisfaction with school operations, and their perceptions of the impact of SB 740.

The research team also conducted interviews and site visits to gather information regarding the impact of the SB 740 process and the general nature of instruction in nonclassroom-based schools. We conducted ten formal telephone interviews, each lasting approximately one hour, with individuals who played important roles in the conception, implementation, or response to SB 740.[6] We asked the interviewees to describe their involvement with the SB 740 process; the type of feedback they received from schools; their perceptions of the impact—both positive and negative—of SB 740; and their vision of how they might like to see the process improve. In addition, we conducted site visits to four case-study schools in which we interviewed administrators, teachers, and parents. The four schools were selected for variation in the types and amounts of nonclassroom-based instruction they offered, the size of the student population, and the degree of funding

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[5] Details regarding the sample and data-collection methods used in the teacher survey can also be found in Appendix B.

[6] These were as follows: Eileen Cubanski, former director of the Charter Schools Office of CDE; Mark Kushner, member of the Advisory Commission on Charter Schools (ACCS); Jeff Rice, director of the Association for Personalized Learning; Greg Geeting of the CDE and former assistant executive director of the SBE; Eric Premack, codirector of the Charter Schools Development Center; David Patterson, principal of the Roklin Academy Charter School and former director of governmental relations at the California Network of Educational Charters; Caprice Young, president and CEO of the California Charter Schools Association; Colin Miller, director of research and policy at the California Charter Schools Association; Reed Hastings, president of the SBE; and Marta Reyes, member of the ACCS and director of the CDE, Charter School Division.

they had received as a result of SB 740.[7] The information gained from these discussions with policymakers and other stakeholders provided insight into the impact of SB 740 and helped guide the development of our surveys and subsequent analyses. We refer to the comments of our interviewees throughout this report as they provide context to the presentation of our findings.

The secondary data used in this study consist primarily of information taken from the forms submitted by nonclassroom-based charter schools to the CDE in compliance with SB 740.[8] In addition, these secondary data are supplemented by the CDE records of total and classroom-based ADA for all charter schools in the state and data on public schools available through the California Basic Education Database System (CBEDS). These data are instrumental in understanding the revenue and expenditure patterns of nonclassroom-based schools, the characteristics of these schools, and how the SB 740 process is being implemented.

Our analysis of the survey and state data consists primarily of correlations and cross tabulations with statistical-significance tests applied where full populations did not exist. The analyses are structured so as to reveal patterns in fiscal and instructional indicators as well as the perceptions of participants in the process. These patterns and perceptions are examined for differences across categories of schools, such as the type of nonclassroom-based program the schools offered or whether the schools had received funding cuts. In some cases, where the data permitted, we utilize regression analysis techniques.

Limitations of the Study

The results of this study should be interpreted with two caveats in mind. First, all of the data used in the study are, to some degree, based

[7] The types of schools were as follows: a small home-study school, a medium-sized home-study school, a large independent-study school, and a school that provided large amounts of both classroom-based and nonclassroom-based instruction.

[8] These forms are displayed in Appendix A.

on self-reports and may thus be subject to error. The surveys of principals and teachers represent the perspectives of the respondents but may not correspond to actual activities within these schools. Even data from the SB 740 funding determination forms are based on the good-faith acceptance of the numbers provided by schools. The most thorough way to assess the impact of SB 740 would be through comprehensive site visits and the systematic logging of time and resources within these schools with several layers of verification. However, this type of evaluation is difficult to implement, may not be cost-effective, and exceeds the resources allocated to this study.

Second, it is difficult to derive strong causal inferences regarding the impact of SB 740 given the timing of the data collection. A causal link between SB 740 and changes in school finances or operations would be most accurately established using both pre- and post-intervention data. The state began collecting detailed revenue and expenditure data from these schools only with the advent of the SB 740 process, however, and our surveys were fielded after the process had been well underway. Thus, we are relegated to examining patterns and perceptions after the fact and must exercise caution in making assertions regarding the true impact of SB 740.

How the Report Is Organized

This report provides answers to the research questions listed above within the following structure. Chapter Two serves as background to the study by providing a description of the characteristics of nonclassroom-based charter schools in California based on data taken from the survey of nonclassroom-based charter school principals and CBEDS. Chapter Three provides a description of SB 740 and the funding determination process. Chapter Four investigates whether the implementation of the funding determination process fulfills the directives of the legislation. Chapter Five presents an analysis of the impact of SB 740 and its effectiveness and appropriateness in fulfilling the intent of the legislation using the financial data collected by the state for use in funding determinations. Chapter Six continues the analysis of the impact and

effectiveness of SB 740 using data from surveys of nonclassroom-based school principals and teachers. Chapter Seven presents the opinions of stakeholders in the process regarding ways in which SB 740 might be reformed. Chapter Eight concludes with a summary and synthesis of the study's findings and a series of recommendations for reforming the SB 740 process.

In addition, this report contains three appendixes. Appendix A contains the SB 740 Funding Determination Forms. Appendix B contains a description of the data-collection methods used in our surveys of nonclassroom-based charter school principals and teachers. Appendix C contains a time line describing the chronology of SB 740's implementation.

CHAPTER TWO

A Profile of Nonclassroom-Based Charter Schools in California

To place our subsequent discussion of SB 740 and analysis of its impact in context, we first provide a description of the salient characteristics of California's nonclassroom-based charter schools, including their instructional-delivery modes, grade arrangements, school sizes, student makeup, and staffing characteristics. To create this descriptive backdrop, we use data derived from our survey of nonclassroom-based school principals in conjunction with data available through the CDE.

Instructional-Delivery Modes

As discussed in Chapter One, nonclassroom-based schools generally use one or a combination of three instructional approaches: home study, independent study, or distance learning. These approaches have a history both within and outside of charter schools, and each is distinct from traditional classroom instruction.

Home study is characterized by the delivery of instruction primarily by parents in the home, although the parental instruction is often supplemented by limited interactions with teachers at a school site. Home study has generally been privately funded (Belfield, 2004) but is legal in all 50 states (Ansell, 2004), although regulation regarding parental qualifications and student assessment varies considerably from state to state.[1] Home study delivered through publicly funded charter

[1] A recent study suggests there are 9 states (including Texas) with little or no regulation, 14 states (including California) where regulation is low, 14 states with moderate regulation, and 11 states where regulation is relatively high (possibly including assessments and inspections,

schools is a relatively new phenomenon—it is not as widespread as private home study and does not occur in every state that has charter schools. According to Huerta and Gonzalez (2004), 27 of the 41 existing charter school state laws explicitly prohibit home school charters, and only 2 (California and Alaska) explicitly permit them.[2] In this report we will use the terms *home study* and *home-study school* to refer to the delivery of primarily home-based instruction through a publicly funded charter school.

Independent study has generally consisted of an instructional model designed to assist families who seek an established alternative instructional strategy. The student, parent, and supervising teacher contract as a team to determine a program of study and facilitate the learning process. In general, children who engage in independent study must be enrolled as students of a public school and are subject to state education code requirements. In California, for example, the Education Code states, "Although many different people may be responsible for the successful implementation of the student's educational program, a credentialed employee of the district or county office of education must take the responsibility to coordinate, evaluate, and provide the general supervision of the student's study" (Section 51747.5).

Distance learning has been part of the instructional model used in independent study or homeschooling or may exist as part of a standalone "cyber school." Distance learning generally refers to instruction that takes place over the Internet, and students enrolled in a cyber school primarily meet with their fellow students and teachers online. Huerta and Gonzalez (2004) report that 60 cyber charter schools had come online in 15 states by 2003, but only 10 of the 15 states in which

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although these are rarely enforced) (Belfield, 2004). A handful of states require homeschooled students to take tests and require parents to submit their curriculum for approval as well as undergo professional evaluations (Education Commission of the States, 2004). For an earlier legal history of homeschooling, see Buss (2000) and Somerville (2001).

[2] The remaining states are vague in terms of explicitly prohibiting or permitting the operation of home-based charter schools. These data were derived from review of the 41 charter school laws, and in some cases a review of general education statutes as well (Huerta and Gonzalez, 2004).

cyber charters operate have explicitly permitted the cyber charter school model in state education statutes.

To gain a sense of the prevalence of these instructional delivery modes in nonclassroom-based charter schools in California, we surveyed the principals of these schools[3] and asked them to tell us the numbers of students in their school who participated in the following five types of programs: conventional classroom-based instruction, parent-directed instruction (e.g., home study, parent-taught classes), student independent study (not computer-based), student independent study (computer-based), and employer/work-based study. After examining the responses to this question, we found that nonclassroom-based schools fell into three main categories: independent study, home study, and hybrid schools.[4] About 25 percent of the nonclassroom-based schools provided primarily independent-study programs, 23 percent provided home study, and the remaining 52 percent were hybrid schools—that is, schools that provided significant amounts of different types of instruction, generally both classroom-based and nonclassroom-based instruction (see Figure 2.1).

The different instructional-delivery modes offered in hybrid schools are shown in Figure 2.2. On average, hybrid schools provided nearly equal amounts of classroom-based, home-study, and independent-study instruction. The "other" category was composed of write-in responses that included instruction described as tutoring, vocational studies, blended small group, personalized learning instruction, and so on.

More than half of nonclassroom-based charter schools combined elementary and secondary grades, as illustrated in Figures 2.3 and 2.4,

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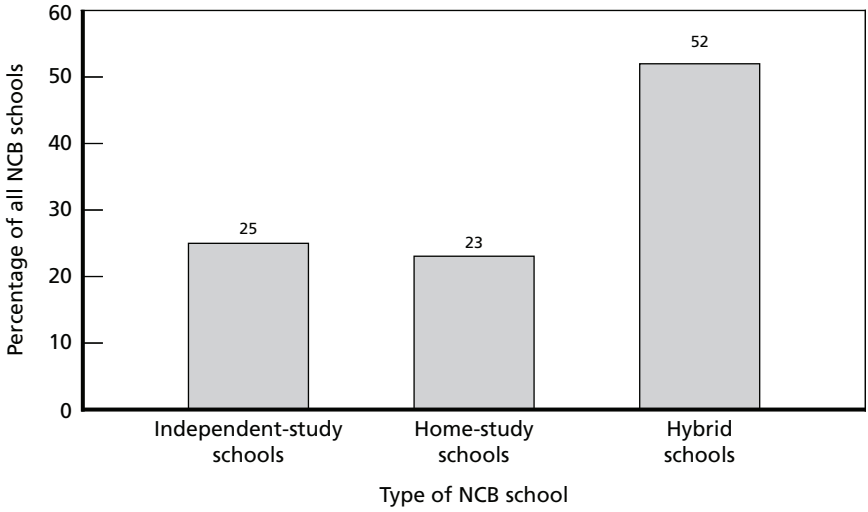
[3] As mentioned in the introduction to this report, 122 schools offer sufficient amounts of nonclassroom-based instruction to require participation in the SB 740 funding dtermination process. The criteria for participation are explained in Chapter Three. We sent our surveys to principals in these 122 schools.

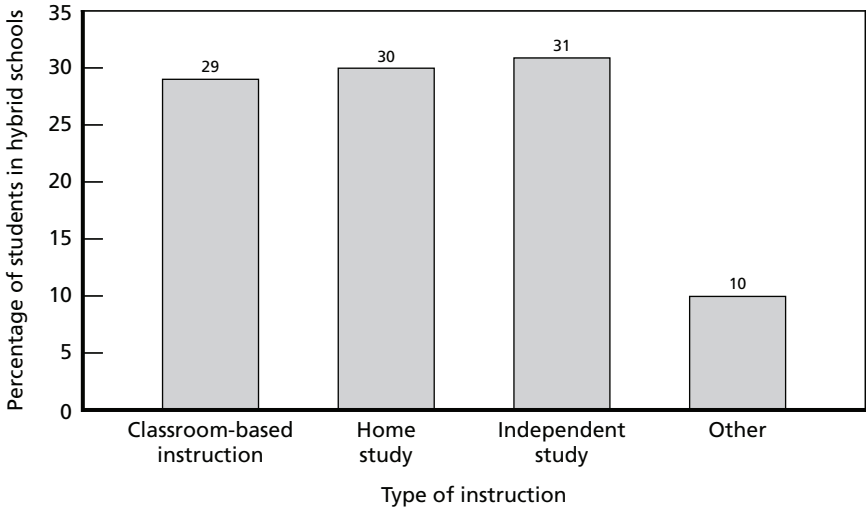
[4] The majority of nonclassroom-based schools served students in more than one type of program. Thus, the categorization of schools was based on whether a large proportion (80 percent or more) of their students were in one of these types of programs. Only two schools provided solely computer-based independent study, and none provided solely work-based study. The two computer-based independent-study schools were subsumed under the general category of independent-study schools for the remainder of this report.

Figure 2.1
Percentage of Nonclassroom-Based Schools of Various Types



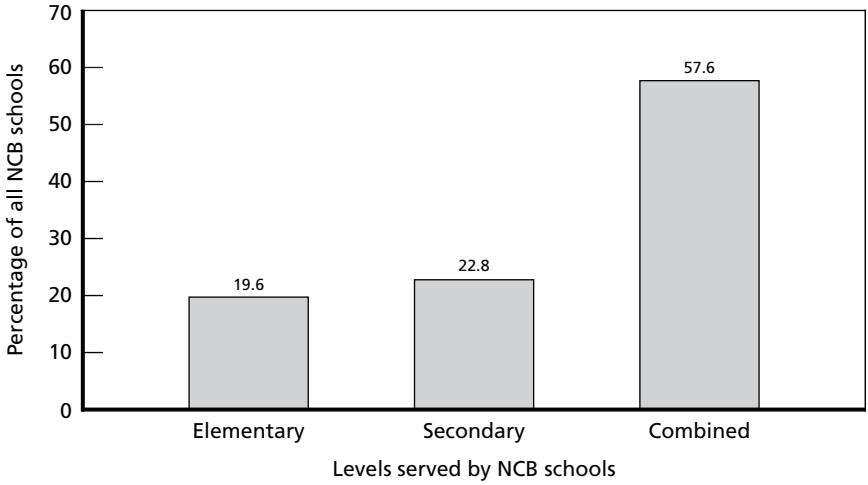
SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.1*

Figure 2.2
Percentage of Students in Hybrid Schools in Various Types of Instructional Programs



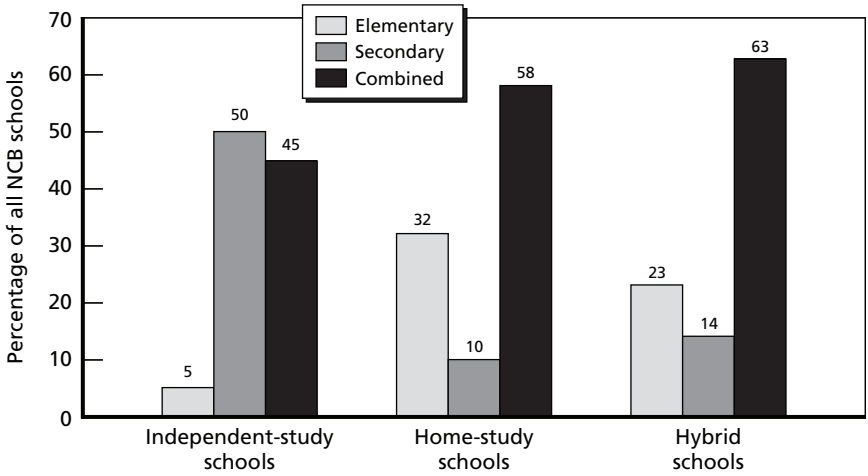
SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.2*

Figure 2.3
Percentage of Nonclassroom-Based Schools Serving Students at Various Grade Levels



SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.3*

Figure 2.4
Percentage of Nonclassroom-Based Schools Serving Students at Various Grade Levels, by Type of School



SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.4*

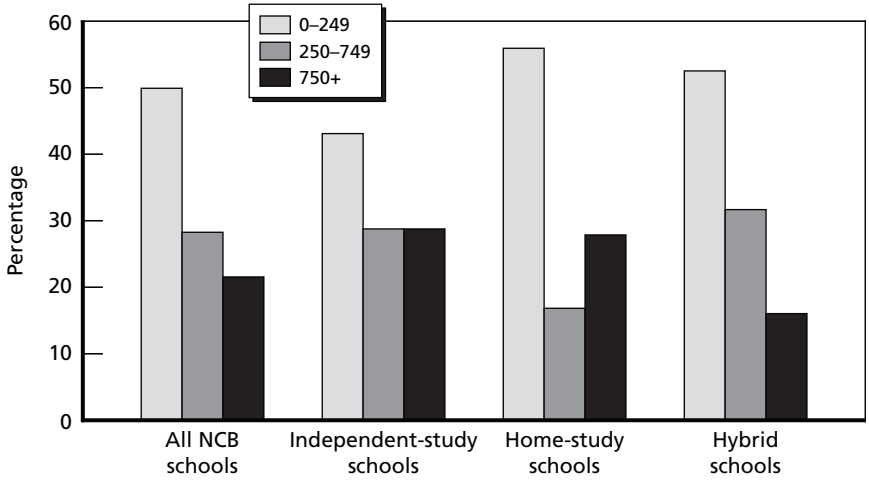
with hybrid schools and home-study schools in particular favoring this model. Independent-study schools were geared more toward the secondary grade levels, as would be expected given the maturity level required for independent study.

Nonclassroom-based schools varied in size. Figure 2.5 shows the percentages of schools falling in various enrollment categories. As the figure illustrates, most nonclassroom-based schools are small, with 50 percent enrolling fewer than 250 students. As can be seen in the figure, the distribution of enrollments varied only moderately by the type of school, with home-study schools having the largest percentage of small schools.

Characteristics of the Students Served in Nonclassroom-Based Schools

Schools that provide nonclassroom-based instruction serve students with a wide variety of needs. A number of the policymakers and educators we interviewed during the course of our study asserted that the personalized learning environment promoted in these schools was particularly well

Figure 2.5
Percentage of Small, Medium, and Large Nonclassroom-Based Schools



SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.5*

suited to the needs of children at the high and low ends of the achievement spectrum. According to their theory, children struggling academically and those who are gifted or advanced tend to be the primary beneficiaries of an instructional-delivery system that allows for a more self-tailored learning pace. In order to assess the range of student needs served by these schools, we asked principals to tell us the percentage of students who came to their schools for certain specified reasons. These reasons and the associated percentages are listed in Table 2.1. According to principals' reports, 38 percent of the students served in these schools were academically at risk, and 19 percent had discipline problems. Overall, 24 percent of nonclassroom-based students were classified by principals as prior homeschoolers, and 14 percent were advanced or gifted.

These percentages varied within the three main types of schools. Independent-study school principals reported that over half of their students were academically at risk. Independent-study school principals also reported serving the highest percentages of students with disciplinary problems. The percentages of students considered to be academically at risk or to have disciplinary problems were lowest (28 and 9 percent, respectively) in schools of the home-study type.

In addition to the above features of the student body, we asked principals to describe the proportions of their students that came from

Table 2.1
Percentage of Students in Nonclassroom-Based Schools with Various Educational Needs

	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools
Academically at risk	38%	54%	28%	37%
Discipline problems	19%	29%	9%	18%
Seeking advanced/gifted instruction	14%	11%	16%	15%
Seeking resources for prior homeschoolers	24%	10%	38%	23%
Seeking more special education resources/services	7%	6%	9%	7%

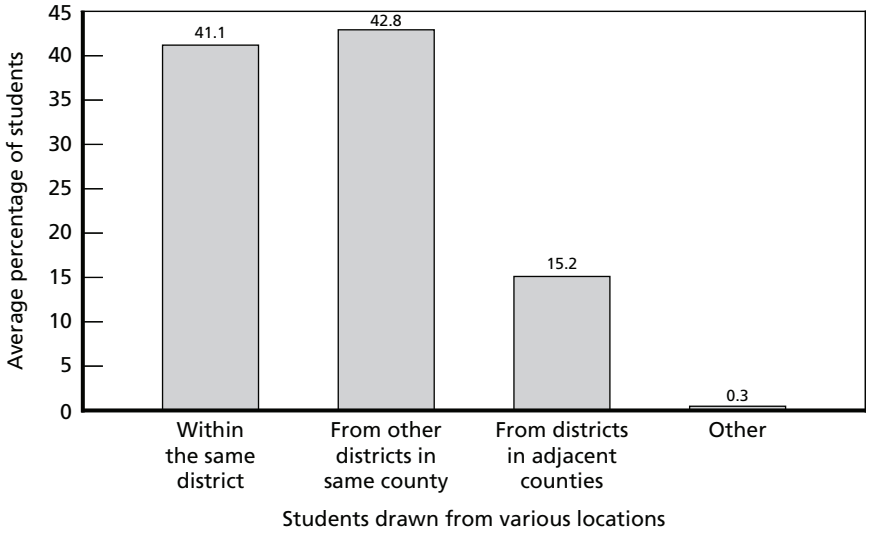
SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
NOTE: The percentages in the columns do not total 100 because principals could count students in more than one category.

the local school district area, other districts in the same county, and districts in adjacent counties. Figure 2.6 shows that, according to principals' reports, a majority of their students were drawn from outside the local school district.

We did not ask principals about the demographic characteristics of their students on our survey, but the CBEDS data contain information on the racial/ethnic characteristics of students in all public schools in the state. Table 2.2 shows that approximately 37 percent of students in nonclassroom-based charter schools belong to racial or ethnic minorities. Compared with minority percentages reported in prior studies for all charter schools and conventional public schools in the state, this percentage is relatively low. Zimmer et al. (2003) report that 65 percent of students in conventional public schools in California are minorities and 60 percent of students in all California charter schools are minorities.

In addition, we see from the table that minority percentages are not evenly distributed across different types of schools. Independent-study schools are the only type of school with a majority of minority

Figure 2.6
Percentage of Students in Nonclassroom-Based Schools Drawn from Various Locations



SOURCE: 2004 RAND survey of nonclassroom-based school principals.
RAND *MG323-2.6*

Table 2.2
Percentage of Minority Students in Nonclassroom-Based Schools

	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools	Small Schools (Fewer than 250 students)	Medium Schools (250–749 students)	Large Schools (750 or more students)
Percent of minority students	37	57	25	35	33	34	44

SOURCE: CBEDS, 2003–2004, and 2004 RAND survey of nonclassroom-based charter school principals.

students—57 percent. Home-study schools, on the other hand, have the lowest percentage of minority students—only 25 percent.

Staffing Characteristics in Nonclassroom-Based Schools

The CBEDS data also permit us to describe the staffing of nonclassroom-based charter schools. Each year, information is gathered regarding the characteristics and assignments of every teacher and certificated staff member in every public school. Table 2.3 describes selected characteristics of teachers and the percentage of staff devoted to administration in nonclassroom-based charter schools.

The table shows that 77 percent of teachers in nonclassroom-based schools are fully credentialed, with the largest percentage (94 percent) located in home-study schools. Teachers in home-study schools also had the greatest average number of years of teaching experience.[5] Nonclassroom-based schools, in general, devoted 12 percent of their full-time equivalent staffing to administration, but this percentage was greatest for independent-study schools (17 percent) and lowest for home-study schools (8 percent).

[5] It is important to note here that teachers in home-study schools are school employees and are to be distinguished from parents who deliver instruction. Parents who deliver instruction are not considered "teachers" in these schools.Figure 2.6

Table 2.3
Staffing Characteristics in Nonclassroom-Based Charter Schools

	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools	Small Schools (Fewer than 250 students)	Medium Schools (250–749 students)	Large Schools (750 or more students)
Percent of teachers with a full teaching credential	77	56	94	78	81	79	75
Years of teaching experience of average teacher	9	8	12	9	11	9	9
Percent of school FTE devoted to administration	12	17	8	13	15	13	11

SOURCE: Professional Assignment Information Form, CBEDS, 2003–2004, and 2004 RAND survey of nonclassroom-based charter school principals.

We can compare these statistics with those presented in Zimmer et al. (2003) for all charter schools and a matched sample of conventional public schools (i.e., a sample of schools with similar student demographics) in California, using 2001–2002 data from CBEDS. Those data showed that 76 percent of teachers in charter schools and 88 percent of teachers in matched public schools possessed full credentials. The average experience for teachers in all charter schools in 2001–2002 was 10 years, versus 14 years for those in the matched sample of conventional public schools. Thus, it appears that teachers in nonclassroom-based charter schools appear to have qualifications that are fairly similar to those in other charter schools but lower than those in conventional public schools.

Summary

Using data gathered from our survey of school principals and from the CBEDS database, we found that nonclassroom-based charter schools

in California are heterogeneous with respect to the way in which they are structured to provide instruction and the types of students they teach. The three main categories of nonclassroom-based schools were independent study, home study, and hybrid, with hybrids making up more than half of all nonclassroom-based schools. Most nonclassroom-based schools combined elementary and secondary grade levels, and half were small schools, with fewer than 250 students.

Students in nonclassroom-based charters have varying characteristics. According to principals' reports, approximately 38 percent of students in these schools were at risk academically, 24 percent were prior private homeschoolers, 19 percent had discipline problems, and 14 percent were gifted. Independent-study schools contained higher percentages of students who were academically at risk or had disciplinary problems. A majority of students in nonclassroom-based schools are drawn from outside the local school district. The percentage of minority students in these schools is low relative to that of all charter schools and conventional public schools in the state, and it is particularly low for home-study schools.

Teachers in nonclassroom-based schools had, on average, nine years of teaching experience, and 77 percent of them were fully credentialed. Only 56 percent of teachers in independent-study schools possessed full credentials, however. Independent-study schools devoted a higher percentage of their staffing to administration than home-study or hybrid schools.

The profile of nonclassroom-based charter schools presented above provides a context within which to place the discussions of the impact of SB 740 that follow. These findings give us a sense of the salient characteristics of these types of charter schools and suggest useful categorizations of schools to apply to subsequent analyses.

CHAPTER THREE

A Description of SB 740 and the Funding Determination Process

With the passage of SB 740 in 2001, the SBE was mandated to adopt regulations "that define and establish general rules governing nonclassroom-based instruction that apply to all charter schools and to the process for determining funding of nonclassroom-based instruction offered by charter schools." This legislation defined nonclassroom-based instruction to include, but not be limited to, independent study, home study, work study, and distance and computer-based education, and authorized the release of funding for nonclassroom-based instruction only after an evaluation is made by the SBE.[1] SB 740 requires that schools in which more than 20 percent of their instructional time takes place outside of the school site and not under the immediate supervision and control of a certificated school employee submit to a process to determine whether they should receive cutbacks in funding. In essence, the legislation instituted a funding determination process as the primary mechanism to foster accountability, reduce profiteering, and increase resources devoted to instructional expenditures in nonclassroom-based schools.[2]

While a great deal of the actual process of determining funding for nonclassroom-based instruction was left to be developed by the

[1] In our description of SB 740, we focus on the provisions related to the funding process for nonclassroom-based charter schools, although SB 740 included other provisions as well. In particular, the bill also established the Charter School Facility Grant Program, designed to provide facilities funding for schools with large numbers of students in poverty. The charter-facilities portion of the bill does not pertain specifically to nonclassroom-based charter schools and is not within the scope of this evaluation.

[2] The text of SB 740 can be found at http://www.leginfo.ca.gov/ by accessing "Bill Information" and searching the 2001–2002 session for "SB 740."

SBE, the bill did require that the criteria used to determine funding include, at a minimum, (1) consideration of the amount of a charter school's total budget expended on certificated-employee salaries and benefits and on school sites,[3] and (2) the school's teacher-to-pupil ratio. SB 740 required the SBE to adopt emergency regulations by February 1, 2002, to establish the exact criteria for the approval and adjustment of funding for nonclassroom-based instruction and to establish an advisory committee to assist with the process. The ACCS[4] was established as a result, and, together with the CDE, it developed emergency regulations and later permanent regulations[5] that defined classroom-based and nonclassroom-based instruction, established minimum and maximum funding amounts for nonclassroom-based ADA,[6] determined the type of information to be collected from schools, and set up the process for the submission and evaluation of funding requests from nonclassroom-based charter schools. Below we describe these regulations in greater detail.

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[3] School sites are defined in Education Code 47612.5, Paragraph 3 of Subdivision d, as "a facility that is used principally for classroom instruction."

[4] The ACCS has nine members. The SBE appoints eight of the members to two-year terms. The ninth member, also appointed by the SBE, represents the state superintendent of public instruction and is designated by the state superintendents. Members may be reappointed without limit. The SBE has to ensure that the following groups are represented on the commission (a single individual may represent more than one group): school district superintendents, charter schools, teachers, parents (guardians), members of the governing boards of school districts, and county superintendents of schools. The ACCS advises the SBE on all aspects of the board's duties. Priority areas include selective granting of charters; taking appropriate action, including, but not limited to, revocation of charters; and establishing appropriate funding levels for nonclassroom-based charter schools.

[5] A time line of the implementation of SB 740 is shown in Appendix C.

[6] Prior to SB 740, charter schools offering nonclassroom-based instruction were funded like other California charter schools. Charter schools in California are funded under a block-grant model that includes a general purpose block grant and a categorical-aid block grant in lieu of many of the individual state categorical-aid programs. The block grants are allocated to charter schools based on their ADA, and entitlements differ for four grade spans (K–3, 4–6, 7–8, 9–12). The charter school block-grant funding model is intended to provide each charter school operational funding equal to total funding received by a school district serving a similar population and to provide funding in a simple manner. For additional information on the charter school funding model, see Zimmer et al. (2003).

Defining Nonclassroom-Based Instruction

The regulations specify which charter schools are required to participate in the funding determination process. They define *classroom-based* instruction as occurring when all of the following four conditions are met:

- The charter school's pupils are engaged in education activities required of those pupils, and the pupils are under the immediate supervision and control of an employee of the charter school who is authorized to provide instruction to the pupils within the meaning of Education Code Section 47605(1).
- At least 80 percent of the instructional time offered at the charter school is at the school site.
- The charter school's site is a facility that is used principally for classroom instruction.
- The charter school requires its pupils to be in attendance at the school site at least 80 percent of the minimum instructional time required pursuant to Education Code Section 47612.5(a)(1).

Furthermore, the regulations define "at the school site" as satisfied if the facility in which the pupils receive instruction meets any of the following conditions:

- The facility is owned, rented, or leased by the charter school principally for classroom instruction.
- The facility is provided to the charter school by a school district pursuant to Education Code Section 47614 principally for classroom instruction.
- The facility is provided to the charter school free of charge principally for classroom instruction pursuant to written assignment (CDE, 2002).

If a charter school does not meet all four of the requirements for classroom-based instruction and at least one of the school-site conditions, then it is considered a "nonclassroom-based school" and must submit a determination of funding request to the CDE. If it does not

submit this request, the school will automatically lose some or all of its state funding for its nonclassroom-based ADA.

SB 740 Funding Application Process

Each year the CDE, in conjunction with the ACCS, develops an SB 740 Funding Determination Form and issues the form to all charter schools in California. The schools then self-determine whether they must submit a determination of funding request based on the amount of their nonclassroom-based ADA. For the 2003–2004 funding determinations, for example, the SB 740 Funding Determination Form was issued in September 2003, and charter schools had until February 1, 2004 to submit their determination of funding request.[7] The form collects general charter school information (e.g., name, address, term of charter), the percentage of full funding requested by the school, and detailed financial information.[8] The form has evolved over time, with more detail requested in each successive year. The financial and other information requested in the form is based on the school's prior fiscal-year information.[9] Required financial information on the 2003–2004 form included

- revenues
  - –all federal, state, and local revenues
  - –other financing sources, including proceeds from sale of property, proceeds from debt, and transfer payments

[7] For the 2002–2003 fiscal year and thereafter, a determination of funding request that will take effect within the fiscal year in which it is submitted must be submitted by a charter school no later than February 1.

[8] See Appendix A for copies of the 2001–2002, 2002–2003, and 2003–2004 Funding Determination Forms and to see how they have changed over time. In general, the schools are directed to use the definitions in the California School Accounting Manual for reporting financial information. In addition, the CDE produces instructions for the SB 740 Funding Determination Form, which details what to include in certain categories.

[9] For schools that did not operate in the prior fiscal year, the financial and other information provided is based on reasonable estimates of annualized current-year information.

- expenditures
  - –instruction and related-services expenditures (certificated and classified[10] salaries and benefits, books, supplies, equipment, and contracts)
  - –operations and facilities expenditures (certificated and classified salaries and benefits, books, supplies, equipment, contracts, and facility acquisition and construction)
  - –administration and all other activities (certificated and classified salaries and benefits, books, supplies, equipment, and contracts)
  - –other outgo (debt service, transfers to district or county)
- reserves
  - –reserve required by chartering authority
  - –reserve for facility acquisition or construction
  - –general reserve for economic uncertainty.

In addition to the above financial information, a charter school must provide information on

- the charter school's pupil-teacher ratio[11]
- the names of any entities that received $50,000 or more of the charter school's total expenditures
- the charter school's governing-board members and their selection
- any transfer payments to a district or county
- any "other reserves"
- the total square footage of the facilities occupied by the charter school and description of the use of the facilities by nonclassroom-based students
- the number of full-time-equivalent employees at the school who possess a valid teaching certificate.

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[10] A classified employee is one who is employed in a position not requiring certification qualifications.

[11] The charter school's pupil-teacher ratio is calculated pursuant to Education Code Section 51745.6. For comparison purposes, the charter school must also provide the pupil-teacher ratio of the largest unified school district in the county or counties in which the charter school operates as required by California Code of Regulations, Title 5, Section 11704.

A complete determination of funding request must also include certifications that the information provided is true, the charter school's nonclassroom-based instruction is conducted for the instructional benefit of the school's students, the governing board has adopted and implements conflict-of-interest policies, and the school's transactions, contracts, and agreements are in the best interest of the school and reflect reasonable market rates.[12]

Criteria for Funding Determinations

While the SB 740 funding application process requires a broad range of financial and operational information, the regulations direct the SBE to base its funding determination on three main criteria. Two of these criteria are percentages: (1) the percentage of total public revenues devoted to certificated employees' salaries and benefits, and (2) the percentage of total revenues devoted to instruction and related services. The third criterion is the school's pupil-teacher ratio, which should be equal to or less than the pupil-teacher ratio of the largest unified school district in the county or counties in which the charter school operates.

The regulations set specific thresholds for the two percentages that schools are expected to meet if they are to be awarded full funding for their nonclassroom-based instruction. According to the state officials we interviewed who were involved in creating and implementing the SB 740 process, the SBE asked the ACCS to look generally at spending patterns across all traditional public school districts and those districts with less than 1,000 students in setting the specific thresholds to be used in the process.

As a result of this endeavor, the SBE, in collaboration with the CDE and the ACCS, established Tables 3.1 and 3.2 to determine funding levels for 2002–2003 and 2003–2004 and each year after. While the SBE, CDE, and ACCS created the criteria for determining whether a school should receive a funding cut, the text of SB 740 itself specified the exact amount of funding to be cut—in the 2001–2002 year, the maximum

[12] California Code of Regulations, Title 5, Section 11963.3.

Table 3.1
2002–2003 Recommended Funding Levels

Recommended Funding Level	70 percent	80 percent	Full Funding
Percent of total public revenues expended on certificated staff salaries and benefits	less than 35 percent, or	greater than or equal to 35 percent to less than 50 percent, and	greater than or equal to 50 percent
Percent of total revenues expended on instruction and related services	less than 55 percent	greater than or equal to 55 percent	

SOURCE: California Code of Regulations, Title 5, Section 11963.4.

Table 3.2
2003–2004 and Beyond Recommended Funding Levels

Recommended Funding Level	No Funding	70 percent	85 percent	Full Funding
Percent of total public revenues expended on certificated staff salaries and benefits	less than 40 percent, or	greater than or equal to 40 percent to less than 50 percent, and	greater than or equal to 50 percent, and	greater than equal to 50 percent, and
Percent of total revenues expended on instruction and related services	less than 60 percent	greater than 60 percent to less than 70 percent	greater than or equal to 70 percent to less than 80 percent	greater than or equal to 80 percent

SOURCE: California Code of Regulations, Title 5, Section 11963.4.

allowable funding cut was set at 5 percent, but more severe cuts were specified for subsequent years. From the tables, we can see, for example, that if in the 2003–2004 year a nonclassroom-based charter school spent between 40 and 50 percent of its total public revenues on certificated staff salaries and benefits *and* spent between 60 and 70 percent of its total revenues on instruction and related services, the school would be recommended for 70 percent funding for its nonclassroom-based ADA.

The ACCS generally recommends the percentages outlined in Tables 3.1 and 3.2 "unless there is a reasonable basis to recommend other-

wise." Other considerations might include factors such as small-school status or the amount of a school's reserves, oversight fees, facility costs, or one-time acquisition costs such as for a school bus or computer hardware. These types of considerations are referred to as *mitigating factors.*

Through the 2003–2004 funding determination period, facility costs were not included in instructional-expenditure percentages and were considered on a case-by-case basis as a mitigating factor. Over time a general agreement emerged that certain facilities costs should be formally incorporated in the calculation of instructional spending. In April 2004, the ACCS approved a formula to allow some facility costs as instructional costs for the SB 740 funding determination process, thus stemming a large degree of controversy that had arisen over this issue.[13]

Funding Approval Process

Once a completed funding determination request is received by the CDE, the CDE compiles the nonclassroom-based charter school's information into a review sheet that documents whether the school has met the criteria for full funding. It then notifies the school and works with the school to answer any questions raised in the review. A school facing funding cuts can provide the CDE with more information to weigh in its case, and the CDE works with the school to help them correctly record information.[14]

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[13] The use of the formula is only necessary to the point a school needs to increase its instructional-cost ratio to reach the target of 80 percent of its costs being for instructional purposes. A school with 80 percent instructional costs without considering facility costs would not need to use this formula. The formula includes four variables: total annual facility-related and operational costs, total facility square footage occupied by the charter school, period-two classroom-based ADA, and total school hours attended by nonclassroom-based pupils at the school site. In general, the formula provides an allowable facility cost per on-site ADA. For more information on the facility-mitigation formula, go to http://www.charterassociation.org/.

[14] As one example, some schools incorrectly allocate contract-staff expenditures. Originally, schools could not put contract-staff expenditures, such as contracted special education staff expenditures, in their certificated-staff calculations. Currently, contract staff are allowed to be included in the calculation. The CDE might work with a school to ensure these expenditures are counted toward certificated-staff expenditures.

Once complete, the CDE sends a funding recommendation to the ACCS as well as to the charter school. The ACCS then deliberates before a final recommendation is presented to the SBE.[15] Prior to recommending a funding cut, the ACCS allows the charter school an opportunity to amend its request or to provide additional information in support of the request. A charter school may also request an appeal to come before the ACCS. If a recommendation of reduced funding is made to the SBE for approval, the recommendation includes a justification for the reduction and may describe how any deficiencies or problems may be addressed. In general, once the CDE receives a complete request from a school, the request is presented to the SBE for final decision within 90 days.

Beginning in 2002–2003, an approved determination of funding could be extended for multiple years but not for more than five fiscal years. A multiyear determination of funding would nevertheless be subject to review any time a material change is made in the school's charter with respect to nonclassroom-based instruction[16] and each time the school's charter is renewed. For the 2002–2003 year, 82 percent, 9 percent, and 9 percent of funding decisions were for one, two, and three years, respectively. For the 2003–2004 year, 77 percent, 7 percent, 15 percent, and 1 percent of funding decisions were for one, two, three, and five years, respectively.

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[15] The CDE presents the final recommendation to the SBE. If a disagreement arises between the CDE and the ACCS, representatives from each office/commission go before the SBE with their arguments. This is a very rare occurrence.

[16] A material change in the school's charter is any significant change that affects any of the following: (1) level of resources devoted to nonclassroom-based instruction, (2) courses to be offered through nonclassroom-based instruction, or (3) delivery of educational services to pupils receiving nonclassroom-based instruction (California Code of Regulations, Title 5, Section 11963.2).

CHAPTER FOUR

Examining Whether the Implementation Process Fulfills the Directives of SB 740

As explained in Chapter Three, funding decisions for nonclassroom-based schools are based on information gathered from SB 740 Funding Determination Forms and are then compared to indictors of expenditures on certificated staff and instructional activities that are loosely based on average expenditures of traditional public schools in California,[1] as well as pupil-teacher ratios relative to the largest school district within the county or counties in which the school operates. While some of the charter school advocates we interviewed in the course of our study acknowledged that benefits have resulted from the implementation of the SB 740 process, including less profiteering and a better understanding of the use of resources in nonclassroom-based schools, some raised concerns about the validity of the funding indicators and the process of evaluating the funding determination of charter schools. Most notably, these advocates are concerned that the indicators are arbitrary and that the standards set up by SB 740 may not have been applied uniformly. In this chapter, we examine these issues by evaluating whether the standards set by SB 740 are consistent with spending patterns within traditional public school districts and evaluating the impact of these standards on nonclassroom-based schools.

[1] In our interview with policymakers involved in creating the SB 740 process, they noted that they looked as school spending patterns across all traditional public school districts and those districts with less than 1,000 students in establishing indexes of expenditures.

Representativeness of the Financial Indicators of Traditional Public School Spending

As noted previously, the SBE, in cooperation with the CDE and the ACCS, established criteria for full funding composed of three primary indicators: (1) nonclassroom-based schools spend at least 80 percent of total revenue on instructional expenditures, (2) nonclassroom-based schools meet a separate spending target of 50 percent of public revenue on certificated-staff salaries and benefits, and (3) nonclassroom-based schools maintain a pupil-teacher ratio less than that of the largest school district in the county or counties in which the school operates.

Because many charter school advocates argued that these indicators were arbitrary, we begin by examining the spending patterns of traditional public school districts to see whether the nonclassroom-based schools are being held to a different standard. More specifically, we examine the average percentage of revenues spent on instructional related services and certificated staff by all traditional school districts in the 2001–2002 school year using California's CBEDS data and compare these averages to the two financial thresholds.[2] We also indicate the percentage of traditional school districts that meet the two financial thresholds for the 2001–2002 school year. We make similar calculations and comparisons using data from the SB 740 Funding Determination Forms for all nonclassroom-based schools and for nonclassroom-based schools of various types (i.e., independent-study schools, home-study schools, and hybrid schools) and sizes for each year of the SB 740 process.

Before presenting these percentages, we should reemphasize, however, that that the SB 740 Funding Determination Forms have evolved over time. For instance, the 2001–2002 SB 740 funding process required all nonclassroom-based schools to fill out Sections A ("Charter Information"), B ("Funding Calculation"), and C ("Additional Required Information") of the Funding Determination Form, and only those schools that did not meet a threshold of spending 50 percent of public revenue on certificated staff had to fill out Section E ("Supplemental Financial

[2] We chose the 2001–2002 school year because this is the year in which the thresholds were established.

Information"), which required more detailed expenditure information.[3] In contrast, both the 2002–2003 and 2003–2004 process required all nonclassroom-based schools to fill out all parts of the form, regardless of whether the school had met the 50 percent threshold. In addition, while the 2001–2002 forms required only the nonclassroom-based school's pupil-teacher ratio, in later years the forms required the pupil-teacher ratio of both the nonclassroom-based school and the largest school district in the county or counties in which the school operates. Therefore, when examining 2001–2002 data from the SB 740 Funding Determination Forms, we know only the percentage of total revenue spent on instructional expenditures for those schools that did not meet the 50 percent threshold of certificated staff. Furthermore, we do not know whether the school exceeded the benchmark pupil-teacher ratio. This makes it difficult to analyze the use of these metrics across years. Nevertheless, data from all years can be informative, and the results of our analysis are displayed in Table 4.1.[4]

In our examination of traditional school districts, we looked both at all California districts and at those with less than 1,000 students. Nonclassroom-based schools are mostly small operations and have greater similarities to a small district than a typical California district. In general, Table 4.1 suggests that school districts spend a large portion of their revenue on instructional expenditures, as both the statewide average and the average of smaller school districts exceed 90 percent and nearly all school districts meet the current 80 percent instructional-expenditure threshold.

In contrast, nonclassroom-based schools, in the initial year of the process, spent a much smaller percentage of their expenditures on instructional activities, with a small proportion meeting the current 80 percent instructional-expenditure threshold.[5] However, in the initial year, non-

[3] Copies of the SB 740 Funding Determination Forms can be found in Appendix A.

[4] We should note that in this section and this chapter, we do not include a test of significance because we have the population of schools and are not trying to infer results to a larger population.

[5] In the 2001–2002 school year, the instructional-expenditure threshold was actually 70 percent, but for consistency, we examined the percentage of schools and districts that meet the 80 percent threshold for all years.

Table 4.1
Representativeness of Financial Indicators

School Type	School Year	Average Percentage of Instructional Expenditure	Percentage of Schools Meeting the 80 Percent Threshold	Average Percentage of Certificated Staff Expenditure	Percentage of Schools Meeting the 50 Percent Threshold
All California public schools	2001-02	94	96	59	80
California public school districts less than 1,000 students	2001-02	91	92	53	63
All nonclassroom-based schools	2001-02	68[a]	18[a]	48	48
	2002-03	70	23	58	70
	2003-04	83	74	60	90
Independent schools	2001-02	50[a]	7[a]	38	30
	2002-03	63	21	45	43
	2003-04	81	56	57	72
Home schools	2001-02	86[a]	10[a]	48	32
	2002-03	76	38	88	82
	2003-04	92	92	64	100
Hybrids	2001-02	69[a]	30[a]	44	42
	2002-03	68	23	58	72
	2003-04	80	73	58	97
Small schools (fewer than 250 students)	2001-02	79[a]	27[a]	54	61
	2002-03	66	15	66	80
	2003-04	90	75	67	93
Mid-size schools (250 to 749 students)	2001-02	56[a]	0[a]	47	44
	2002-03	69	20	45	63
	2003-04	81	78	54	95
Large schools (750 or more students)	2001-02	59[a]	13[a]	33	15
	2002-03	67	21	41	36
	2003-04	81	57	53	71

SOURCE: CDE's J200 Data, SB 740 Funding Determination Forms 2001–2002 through 2003–2004, and 2004 RAND survey of nonclassroom-based charter schools.

[a] For the 2001–2002 school year, only those schools that did not meet the 50 percent certificated-staff threshold were required to fill out Section E, which included instructional expenditures.

classroom-based schools only filled out the instructional-expenditure portion of the form if they did not meet the certificated-staff salary threshold. Therefore, it is difficult to know how deflated these averages are. Nevertheless, these percentages and proportions changed dramatically over time. By the 2003–2004 school year, nonclassroom-based schools allocated 83 percent of expenditures to instructional activities, and 74 percent of nonclassroom-based schools met the 80 percent threshold.

With regard to the expenditure threshold for certificated staff, both the statewide and small-district averages suggest that school districts, on average, are allocating at least 50 percent of their revenue towards certificated staff. While nonclassroom-based schools, on average, did not reach the 50 percent threshold in the initial year, their percentages went up substantially over time, and by the 2003–2004 school year, these expenditures reached 60 percent, exceeding both the statewide and small school district average. It is also interesting to note that only 63 percent of all small school districts met this threshold, which exceeded the initial average of nonclassroom-based schools of 48 percent but was far short of the 90 percent of nonclassroom-based schools by the 2003–2004 school year.

Of the three types of nonclassroom-based schools, independent schools allocated the least amount of revenue towards instructional and certificated-staff expenditures and were the least likely to meet the two thresholds. In terms of size, large schools were the least likely to meet the thresholds over time.

The analysis suggests that the 80 percent threshold of instructional expenditures is representative of both smaller school districts and California school districts generally. However, the evidence is less clear for the 50 percent expenditure threshold for certificated staff. While on average both smaller school districts and school districts generally are expending 50 percent of their revenue on certificated staff, a substantial percentage of small school districts do not meet this threshold. Thus, this threshold may not be representative.

The Use of the Indicators in Determining Funding

Transparency and adherence are fundamental to successful regulation. Throughout our key stakeholder interviews, both charter school ad-

vocates and proponents of the SB 740 funding determination process noted the importance of transparency and consistency in funding determinations so that charter schools can clearly understand the standard they are measured against. Table 4.2 highlights the percentage of nonclassroom-based schools that met the SB 740 thresholds and received full funding determinations across each year of the process relative to the total number of nonclassroom-based schools that met the thresholds.

While the use of a different format in the 2001–2002 school year makes it difficult to assess the indicators consistently across the years, the table generally suggests that the funding process is using the two financial thresholds in making funding determinations, as almost all schools that met the 50 percent certificated-staff and 80 percent instructional-expenditure thresholds received full funding. Further-

Table 4.2
Percentage of Fully Funded Nonclassroom-Based Schools That Met SB 740 Thresholds

	2001–2002	2002–2003	2003–2004
Number of fully funded NCB schools that met the 50 percent certificated staff salaries threshold divided by the number of all NCB schools that met the 50 percent certificated staff salaries threshold multiplied by 100	98%	99%	89%
Number of fully funded NCB schools that met the 80 percent instructional spending threshold divided by the number of all NCB schools that met the 80 percent instructional spending threshold multiplied by 100	NA[a]	95%	95%
Number of fully funded NCB schools that met both thresholds divided by the number of all NCB schools that met both thresholds multiplied by 100	NA[a]	100%	93%
Number of fully funded NCB schools that met the pupil-teacher ratio threshold divided by the number of all NCB schools that met the pupil-teacher ratio threshold multiplied by 100	NA[a]	76%	79%

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.
[a] For the 2001–2002 school year, only those schools that did not meet the 50 percent certificated-staff threshold were required to fill out Section E, which included instructional expenditures.

more, schools that met both conditions generally received full funding in 2003–2004 and uniformly received full funding in 2002–2003.

In addition to schools that met the expenditure thresholds, a few schools did not meet these criteria but did receive full funding (two schools and one school for the 2002–2003 and 2003–2004 school years, respectively). Although it is not clear why these schools received full funding, presumably there were mitigating factors the process took into account in making their determinations.

This analysis suggests that the financial indicators are being used to make funding determinations, while the pupil-teacher ratio is used less extensively.

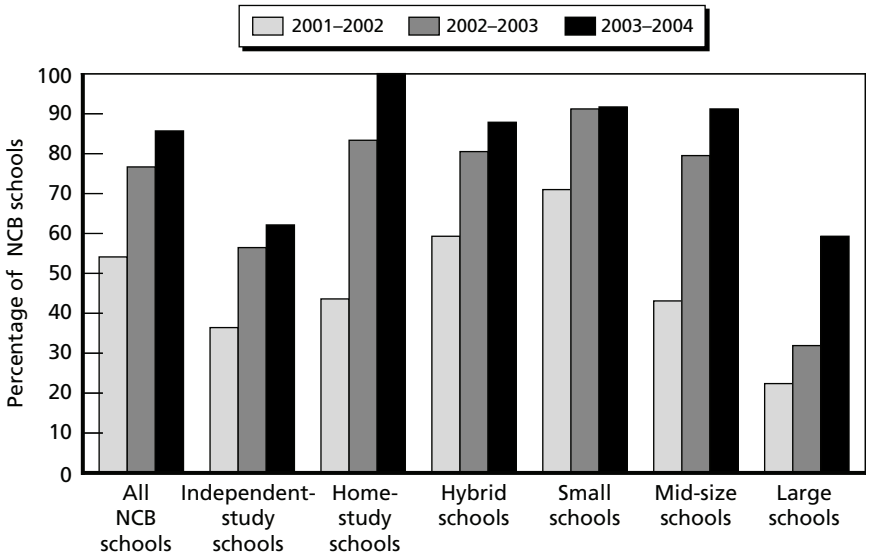
Pattern of Funding Cuts over Time

As we described earlier, the first year of the SB 740 process was implemented expeditiously through emergency regulations. The stakeholders we interviewed noted that as the result of the swiftness of the implementation, nonclassroom-based schools did not have time to adapt to the new requirements in the first year. Proponents of the process highlighted that schools only faced a 5 percent funding reduction in the initial year, and schools should have had sufficient time in subsequent years to adapt. In fact, a number of proponents of the SB 740 process said during our interviews that they believed schools were adapting to the process and that greater shares of nonclassroom-based schools would receive full funding as time went on.

Figure 4.1 displays the percentage of all nonclassroom-based schools receiving full funding over time and does indicate a growth in the full funding rates for nonclassroom-based schools generally and for the various types of nonclassroom-based schools. It is interesting to note that independent and large schools have the lowest rates of full funding across all years.

Because the range of possible funding rates prescribed by SB 740 changed over time, we also show the average funding percentages of all nonclassroom-based schools and by type and size over time in Figure 4.2. The analysis suggests a small decline in average funding rates in the

Figure 4.1
Percentage of Nonclassroom-Based Schools Receiving Full Funding



SOURCE: SB 740 Funding Determination Forms 2001–02 through 2003–04; 2004 RAND nonclassroom-based charter school principal survey.

RAND *MG323-4.1*

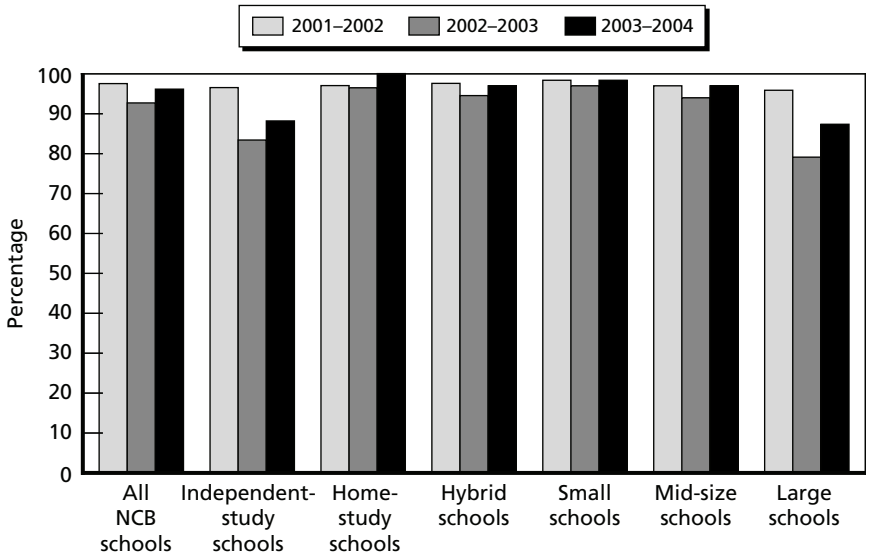
2002–2003 school year, with a small rebound in rates in 2003–2004. Again, the figure also shows that independent-study and large schools have the lowest funding rates.

The above figures suggest that after an initial transition period in which many charter schools did not receive full funding, most schools now receive full funding, and the average funding rates for nonclassroom-based schools is over 90 percent, with only independent-study and large nonclassroom-based schools receiving less than 90 percent.

Summary

In this chapter, we described SB 740 and its regulations in greater detail and examined the validity of the thresholds developed by the SB 740 process. We examined whether the 50 percent certificated-staff and 80 percent instructional-expenditure thresholds were consistent with

Figure 4.2
Average Funding Determination



SOURCE: SB 740 Funding Determination Forms 2001–02 through 2003–04; 2004 RAND nonclassroom-based charter school principal survey.

RAND *MG323-4.2*

the spending patterns of traditional public school districts. We found that almost all traditional public school districts met the instructional-expenditure threshold, but a substantial percentage of school districts did not meet the certificated-staff threshold. In fact, a higher percentage of nonclassroom-based schools met this threshold by the third year than traditional public school districts did when the criteria were established.

We also investigated whether the SBE was adhering to the standards it had established, and found that the funding determination process consistently applied the 50 percent certificated-staff and 80 percent instructional-expenditures thresholds and generally applied the pupil-teacher ratio threshold in determining funding for nonclassroom-based schools. This provides greater assurance to schools that if they meet these criteria, they will receive full funding. In examining how the implementation of the SB 740 process has affected funding for schools, we found that a large portion of schools receives full funding and that the percentage of schools receiving full funding has increased over time.

CHAPTER FIVE

Examining the Impact and Effectiveness of SB 740: Evidence from State Financial Data

The third and fourth research questions guiding this evaluation of SB 740 ask whether the funding determination process has had an impact on operations and instruction in nonclassroom-based schools and whether the process has provided appropriate and effective oversight. We address these questions in this chapter using data collected from the SB 740 Funding Determination Forms and in the next chapter using data from our surveys of nonclassroom-based school principals and teachers.

Before presenting our analyses, it is helpful to refer to our interviews of individuals involved in the creation and implementation of SB 740 for contextual information regarding the intent behind the law and the perceived successes and shortcomings of the process as currently implemented. The policymakers we interviewed emphasized that SB 740 was designed to combat profiteering in nonclassroom-based charter schools, to eliminate excess funding for schools that served students and parents who demanded little in the way of services, and to ensure that large percentages of resources were devoted to instruction, and in particular to teachers. Several policymakers felt that whereas a societal consensus around class size reduces the risk of profiteering in classroom-based instruction, the "rules are less clear" in relation to nonclassroom-based schools, leaving open the possibility for administrators to pocket funds not used for instruction. SB 740 was intended to "weed out profiteering without squeezing out innovation," and several interviewees pointed to a reduction in media "blowups" regarding fiscal abuses in nonclassroom-based charter schools since the implementation of SB 740 as an indication of the law's success in reducing profiteering.

A number of stakeholders mentioned that the process has resulted in greater fiscal transparency for nonclassroom-based charter schools, allowing policymakers as well as school personnel to learn about the operation of these types of schools. One interviewee stated that while many schools initially opposed the process, personnel in those schools became shocked to see how some schools were operating. Several interviewees felt that simply subjecting these schools to fiscal scrutiny had helped curb profiteering. Some pointed to the instructional-spending target as a safeguard, and some mentioned the requirement to list outside contracts valued above $50,000. Increased information transparency, they maintained, had revealed the unexpected sizes of management contracts with schools, resulting in the reduction or elimination of many of these contracts.

Several interviewees raised concerns, however, that SB 740 had not addressed the more fundamental issue of instructional quality in nonclassroom-based schools in an appropriate manner. While it is relatively easy to examine the percentage of expenditures devoted to instruction-related activities, a number of interviewees argued that increased expenditures may not actually lead to increased student exposure to higher-quality teachers or even to teachers generally. For instance, one way schools could meet the 50 percent and 80 percent thresholds for certificated staff and instructional expenditures would be to increase the salaries of existing teachers, but this would not necessarily increase the quality of instruction or exposure to teachers. In addition, contracts with outside entities might, in some cases, provide schools with expertise and efficiency that did not exist in house. A major criticism of the process advanced by charter school advocates and administrators was that the fiscal strain and uncertainty it engendered caused the quality of instruction to suffer and led to an inefficient allocation of resources. Another concern expressed by stakeholders was that the burden of compliance imposed on schools was excessive and, in many cases, unfair.

In this chapter and the one that follows, we present analyses of information derived from multiple sources to assess the impact that SB 740 has had on profiteering, school operations, and instruction and to provide a sense of its successes and failures. In this chapter, we make

use of the data collected from the SB 740 Funding Determination Forms[1] to examine whether the SB 740 process appears to have fulfilled the intent of the legislation. We investigate trends in profiteering by examining the relationship between funding decisions and school profits, administrative costs, and contracts with entities that exceed $50,000. We also provide evidence of the impact the process has had on instruction by examining trends in the percentage of expenditures spent on instruction and certificated staff and whether these trends are correlated with changes in the numbers of teachers employed and pupil-teacher ratios. Because an implicit hope of the SB 740 process is not only to reduce profiteering and exposure to instructional activities, but also to eliminate "bad apples," we also examine the pattern of nonclassroom-based schools closing or opting out of nonclassroom-based instruction since the initiation of SB 740.

Before presenting our findings, we should reiterate a caveat mentioned in the introduction to this report. While the analyses highlight interesting patterns and provide evidence of the effects of SB 740, they do not necessarily reflect causality. To assert that SB 740 caused these patterns, we would need data collected both before and after the intervention. Unfortunately, detailed expenditure and revenue data have only been collected since the intervention began.

Another caveat applies to the SB 740 financial data. The 2001–2002 Funding Determination Form only required those nonclassroom-based schools that did not meet the 50 percent certificated-expenditure threshold to provide information on expenditures, whereas in subsequent years, all schools were required to provide expenditure data. Therefore all calculations involving the 2001–2002 data are performed on a subset of schools and may be biased to the extent that schools

[1] While the data derived from the SB 740 Funding Determination Forms provide detailed information of revenue and spending patterns of nonclassroom-based schools, they have certain drawbacks. First, the state did not translate the information provided by schools on the forms to electronic data. Thus, we had to keypunch the data in by hand. Second, the schools and the information requested each year were not consistent. Each year, a number of schools were opened and closed. In addition, some schools opted out of providing nonclassroom-based education and were no longer required to fill out the forms. In addition, starting in 2002–2003, schools could request multiyear funding determinations, which meant that a subset of schools did not submit a 2003–2004 form.

that did not meet the certificated-expenditure threshold differed from schools that did. There were 34 out of 104 schools in the 2001–2002 year that did not provide these data.[2]

Evidence from the Financial Data of the Effect of SB 740 on Profiteering

Profiteering is a difficult concept to measure. In the case of nonclassroom-based schools, we define *profiteering* as the extraction of unreasonably high profits, payments, or salaries by individuals, districts, and organizations involved in the operation of these schools. This phenomenon can take several forms and is difficult to measure directly. We therefore investigate phenomena that we consider to be related to profiteering and for which the state has collected data, such as the profitability of these schools, the proportion of expenditures devoted to administration versus instruction, and the amount contracting with outside organizations valued above $50,000.

Although most nonclassroom-based schools are non-profit organizations, we use the term "profit" in a purely instructive manner to indicate the excess of revenues over costs—that is, as a measure of fiscal soundness. For the purpose of our first analysis, we use "percent profits,"[3] which is defined as revenue minus costs over revenue, as an indicator of profitability. Interviewees suggested that profits cannot be easily identified by revenues over costs, however, as they can be concealed through exorbitant administrative salaries or contracts with outside entities. In addition, a number of interviewees noted that there is no standard for what an appropriate level of profit should be. In fact, advocates for nonclassroom-based schools argued that profits often go back into reserves

[2] While schools were not required to fill out the rest of the form if they met the 50 percent threshold, 15 out of the 49 schools that met this threshold did. The number of schools participating in the SB 740 process in subsequent years was 119 in 2002–2003 and 95 in 2003–2004. The number was lower in 2003–2004 because some schools received multiyear determinations in the prior year.

[3] We did not examine total profits, as this can vary considerably based on the size of the school.

that can be used for future investments in facilities and technology or for emergencies, including the possibility of funding cuts. While those who support SB 740 acknowledge this, they note that the process tries to takes these issues into account on a case-by-case basis. With these considerations in mind, we first examine trends in profits and then trends in administrative expenses and contracts to outside entities.

Table 5.1 displays the average percent profit for nonclassroom-based schools generally and for those schools that received a funding cut versus those schools that did not. We again note that the 2001–2002 Funding Determination Form only required those nonclassroom-based schools that did not meet the 50 percent certificated-expenditure threshold to fill out the expenditures side of the form, which restricts our sample in the first year. Despite this limitation, interesting patterns emerge from the analysis. As Table 5.1 shows, initially, both the fully and less-than-fully funded schools had profits in the 2001–2002 school year, but the profits were, on average, substantially higher in schools that received funding cuts. The table indicates that schools receiving funding cuts experienced a large drop in profits after the first year, and it displays a pattern of reduced profitability overall by the third year.[4] Our data also show that in the 2001–2002 year, 90 percent of schools were profitable, and that this percentage dropped to 66 in 2002–2003 and to 60 in 2003–2004. We

Table 5.1
Relationship Between Funding Levels and Profits

	Average Percent Profit		
Funding Status	**2001–2002**	**2002–2003**	**2003–2004**
All nonclassroom-based schools	10.4	–7.0	–10.8
Schools that received funding cuts	14.6	–30.1	–9.3
Schools that received full funding	2.7	4.7	–11.1

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

[4] Since the group of schools in each category changed slightly from year to year, we also performed a similar analysis that followed only the same subsets of schools that received full or decreased funding in a given year into the subsequent year. The patterns that resulted from this analysis were essentially the same as those presented in the table and are therefore not shown.

explore the data further by examining the number of schools in each year with substantial losses. More specifically, we examined the number of schools that had losses of 40 percent or more in each of the three years. In 2001–2002, only one school had losses greater than 40 percent, and this number increased to six schools in both 2002–2003 and 2003–2004. These results suggest that a small subset of schools may be driving much of the overall average losses in the second and third years. However, the reduced percentages of profitable schools indicate that a significant number of schools experienced losses of some magnitude, which may be creating fiscal stress for many nonclassroom-based schools.

One possible interpretation of these trends is that the SB 740 process had an effect on the allocation of resources that reduced profitability, and that these schools adjusted spending patterns to maintain financial survival. Profitability may have been affected simply by the reductions in revenues stemming from funding cuts, however, as well as by changes in spending. Table 5.2 indicates that both decreases in revenues and increases in spending drove these trends. Average per-pupil revenues for nonclassroom-based schools overall remained relatively stable over the course of the three years,[5] whereas average per-

Table 5.2
Relationship Between Funding Levels and Per-Pupil Revenues and Expenditures

	Average Revenue per ADA		
Funding Status	**2001–2002**	**2002–2003**	**2003–2004**
All nonclassroom-based schools	4,603	4,564	4,765
Schools that received funding cuts	4,675	4,191	3,864
Schools that received full funding	4,529	4,703	5,018
	Average Expenditure per ADA		
	2001–2002	**2002–2003**	**2003–2004**
All nonclassroom-based schools	4,210	5,447	5,678
Schools that received funding cuts	3,862	6,056	4,299
Schools that received full funding	4,956	5,241	6,004

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

[5] After accounting for inflation, the real value of revenues actually dropped slightly.

pupil expenditures increased dramatically in the second year. After breaking these patterns down by fully and less-than-fully funded schools, however, we found that per-pupil revenues for schools receiving funding cuts dropped substantially over the three years, while the per-pupil revenues of schools receiving full funding actually increased. On the expenditure side, per-pupil spending fluctuated over time for schools receiving funding cuts, while schools receiving full funding showed, on average, consistent growth in per-pupil expenditures. The excesses of expenditures over revenues most likely indicate that schools were dipping into reserves. The patterns shown in Table 5.2 help explain the reductions in profitability shown in Table 5.1.

As noted previously, one drawback to these analyses is that schools can easily conceal profits by, for example, paying exorbitant salaries to administrators. To examine this question, we looked at the average percentage of total costs spent on administrative expenses for nonclassroom-based schools generally and for those schools that received funding cuts versus those schools that did not. The results are displayed in Table 5.3. Again, we note that the analysis continues to be plagued by the lack of complete information in 2001–2002 Funding Determination Form data and the inconsistent set of schools across the three years due to schools opening, closing, or opting out of nonclassroom-based instruction.[6] The table suggests that schools allocating fewer resources toward adminis-

Table 5.3
Relationship Between Funding Levels and Administrative Expenses

	Average Proportion of Administrative Expenses		
Funding Status	**2001–2002**	**2002–2003**	**2003–2004**
All nonclassroom-based schools	21.5	23.1	12.9
Schools that received funding cuts	22.9	24.1	15.8
Schools that received full funding	18.8	22.8	12.2

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

[6] Again, however, an analysis that followed only the same subsets of schools across years yielded the same pattern of results.

trative expenses were more likely to receive full funding. The table also suggests that there was an increase in the percentage of administrative expenses in the second year and then a substantial reduction by the third year for both fully and less-than-fully funded schools.

Finally, in Table 5.4, we show the relationship between having a contract of more than $50,000 and the funding determination.[7] The table is not plagued by the same incomplete information in the 2001–2002, because schools were required to indicate whether they had a contract of more then $50,000 with an outside entity whether they met the 50 percent certificated-staff salary threshold or not.[8] Table 5.3 suggests a reduced use of contracts in excess of $50,000 by 2003–2004. It also suggests that schools with a contract of greater than $50,000 were more likely to receive a funding cut in 2001–2002 and 2002–2003 but not in 2003–2004. It is also interesting to note that the percentages decreased for schools that received less than full funding while the percentages increased for fully funded schools.

Together, the above tables suggest that the SB 740 process may have reduced the profitability of nonclassroom-based schools and the

Table 5.4
Relationship Between Funding Levels and Having a Contract with an Entity in Excess of $50,000

	Percentage of Schools that have a Contract with an Entity in Excess of $50,000		
Funding Status	**2001–2002**	**2002–2003**	**2003–2004**
All nonclassroom-based schools	51.1	52.7	44.1
Schools that received funding cuts	74.4	77.8	33.3
Schools that received full funding	31.4	45.2	46.4

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

[7] Because larger schools are more likely to have large contracts due to their sheer size, we also examined the same relationships for large, medium, and small nonclassroom-based schools, but no distinguishable patterns emerged.

[8] In addition, an analysis using a consistent subset of schools across years did not reveal a different pattern here either.

proportion of expenditures devoted to administrative expenses. They provide weaker evidence regarding the effect of the process on contracts with outside entities, but suggest nevertheless that an overall decline in the use of the contracts took place. In general, the results point to reduced profiteering since the inception of the SB 740 process.

Evidence from the Financial Data of the Effect of SB 740 on Instruction

A major goal of the SB 740 funding determination process, in addition to the reduction of profiteering, is to get schools to focus their resources on qualified teachers and instructional activities. One indicator of exposure to teachers that parents and policymakers often track is pupil-teacher ratios. Below, in Table 5.5, we show the pupil-teacher ratios of nonclassroom-based schools over the three years of the SB 740 process. The table does suggest that pupil-teacher ratios have declined, but only marginally. Teachers on average had one less student over the three years, which does not suggest a substantial increase in exposure. Furthermore, although the table also shows that schools that received funding cuts appeared to have improved their pupil-teacher ratios, those that received full funding appeared to have worsened their ratios slightly.

Another possible indicator of exposure to teachers is the percentage of total expenditures devoted to certificated staff and instruction. In Table 5.6, we display these percentages over time for nonclassroom-based schools generally and for those schools that received full fund-

Table 5.5
Relationship Between Funding Levels and Pupil-Teacher Ratios

	2001–2002	2002–2003	2003–2004
All nonclassroom-based schools	20.9	20.0	19.8
Schools that received funding cuts	22.3	19.98	19.5
Schools that received full funding	19.8	20.0	20.1

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

Table 5.6
Relationship Between Funding Levels and Instructional and Certificated Personnel Expenses

	Percentage of Total Expenditures Devoted to Certificated Personnel			Percentage of Total Expenditures Devoted to Instruction		
Funding Status	2001–2002	2002–2003	2003–2004	2001–2002	2002–2003	2003–2004
All nonclassroom-based schools	41.9	48.7	51.6	66.7	69.9	78.5
Schools that received funding cuts	38.9	33.9	46.4	63.9	58.9	71.4
Schools that received full funding	47.7	54.1	53.2	71.9	73.8	80.5

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

ing and those that did not. The table highlights a pattern of greater percentages of expenditures devoted to instruction over time. In addition, there is an increase in the proportion of expenditures devoted to certificated staff by the third year of the reform.

Together with Table 5.5, these trends provide some evidence that the SB 740 process accomplished the intended purpose of getting nonclassroom-based schools to devote greater proportions of resources to certificated personal and instructional activities. However, these expenditures trends do not answer the question of whether SB 740 is leading to greater exposure to teachers for students. Some stakeholder interviewees noted that schools could simply increase the salaries and benefits or pay bonuses to existing teachers. Alternatively, schools that receive funding cuts could maintain their current level of expenditures on certificated staff, but have a lower revenue base, which would increase the percentage of expenditures on certificated staff but not the expenditure levels on teachers.

To examine this question, we look at the correlation of changes in the percentage of expenditures with changes in pupil-teacher ratios and with the changes in the number of full-time-equivalent certificated teachers. Table 5.7 shows these correlations, none of which were statistically significant. The small magnitude and lack of significance of

Table 5.7
Correlation of Changes in the Percentage of Certificated-Staff Expenditures with Changes in Pupil-Teacher Ratios and Changes in the Number of Full-Time-Equivalent Certificated Teachers

Year	Correlation of Change in Percentage of Certificated-Staff Expenditures with Change in Pupil-teacher Ratios	Correlation of Change in Percentage of Certificated-Staff Expenditures with Change in the Number of Full-Time-Equivalent Certificated-Staff
Change from 2001–2002 to 2002–2003	–0.12	–0.04
Change from 2002–2003 to 2003–2004	–0.14	0.19

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004.

the correlations provide some credence to those stakeholders we interviewed who suggested that changes in expenditures do not necessarily change the exposure of students to certificated teachers.

If these stakeholders are correct and schools are simply paying higher levels of compensation to teachers, then the financial thresholds may be counterproductive. In fact, some stakeholders claimed that the focus on funding credentialed staff may limit the educational approaches that nonclassroom-based schools can use, forcing these schools into more conventional, classroom-based educational approaches rather than implementing other approaches that may be more technology-intensive.

Evidence from State Data of the Closure of Nonclassroom-Based Schools or Discontinuation of Nonclassroom-Based Instruction

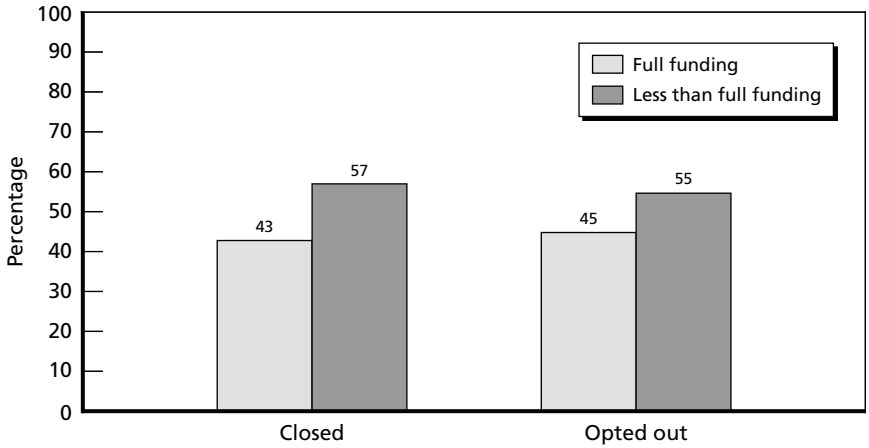
One goal of the SB 740 process is to eliminate the "bad apples" through funding cuts. Here, we examine the number of nonclassroom-based schools that were closed[9] and what percentage of them received full

[9] To our knowledge, none of these schools were closed by the state or chartering authority, but rather "decided" to close.

and less-than-full funding. Another possible response by schools is to opt out of providing nonclassroom-based instruction, which we also examine for fully and less-than-fully funded schools. Figure 5.1 displays the results. In total, 14 nonclassroom-based schools have closed since the SB 740 process initiated. Of these schools, eight (57 percent) have received funding cuts and six (43 percent) did not. Examining the 11 schools that opted out of nonclassroom-based instruction, six (55 percent) had received less than full funding. While there is a slightly higher number of schools that closed or opted out of the process after receiving less than full funding, it does not indicate whether the schools that closed or opted out were bad apples. To answer this question, we would need further data unavailable for this project.

Also of interest is whether charter schools generally are opting out of nonclassroom-based instruction. As mentioned previously, a charter school is only required to participate in the SB 740 process if their nonclassroom-based ADA is more than 20 percent of the school's total ADA. Some schools on the margin may opt out of nonclassroom-based instruction entirely to avoid any risk of being in noncompliance with the state requirement, which some stakeholder interviewees noted as an

Figure 5.1
Percentage of Schools That Closed or Opted Out of the SB 740 Process by Reducing Nonclassroom Instruction Across Funding Status



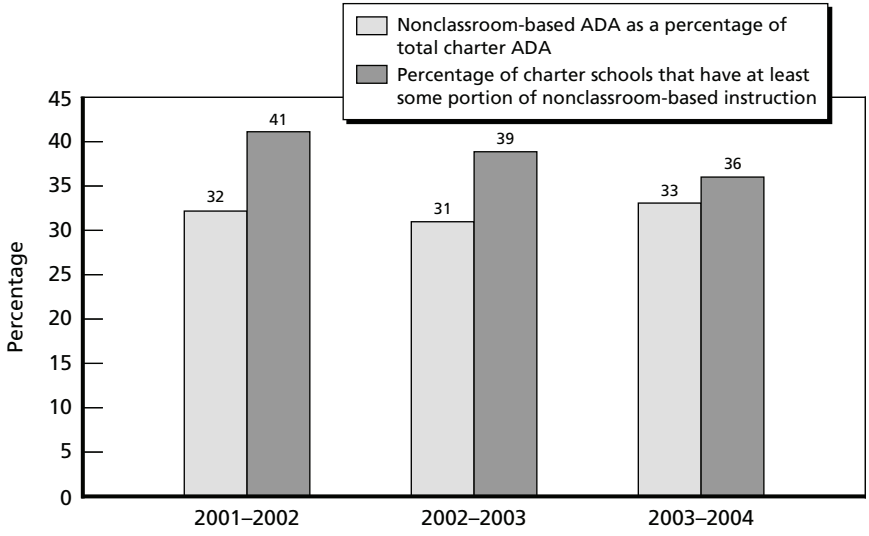
SOURCE: California Department of Education.
RAND *MG323-5.1*

example of stifling the freedom originally intended for charter schools. In Figure 5.2, we show the percentage of schools that have at least some nonclassroom-based instruction and the percentage of total ADA that is nonclassroom based. The table suggests that while the percentage of all charter schools offering some portion of nonclassroom-based instruction is decreasing, the percentage of total charter student ADA that is nonclassroom based is not decreasing. This implies that schools with already high percentages of nonclassroom-based students may have increased the numbers or percentage of students receiving nonclassroom-based instruction.

Summary

In this chapter, we examined the impact of SB 740 on the finances, operations, and—to the degree that it was possible—instruction in non-

Figure 5.2
Percentage of Schools That Offer Some Portion of Nonclassroom-Based Charter Schools and Percentage of Students Instructed Through Nonclassroom Settings



SOURCE: California Department of Education.

RAND *MG323-5.2*

classroom-based schools. We found evidence to suggest that SB 740 has been effective in reducing profitability, increasing the percentage of total revenues spent on instruction, increasing the percentage of public revenues spent on certificated-staff salaries, and generally decreasing the number of outside contracts with values greater than $50,000. We found only slight evidence of a positive impact of SB 740 on pupil-teacher ratios.

Our analyses of the SB 740 financial data indicated that profits (as measured by revenues over expenditures) for nonclassroom-based schools had turned into losses by the third year of the SB 740 process, raising the concern that the changes schools are making in order to receive full funding, or the funding cuts themselves, may be placing some schools in fiscal jeopardy. In addition, although the percentage of expenditures spent on certificated staff increased, we found almost no correlation between the growth in these expenditures and the number of certificated teachers and pupil-teacher ratios within the schools, substantiating concerns that SB 740 may have increased teacher salaries but not the exposure of students to teachers.

CHAPTER SIX

Examining the Impact and Effectiveness of SB 740: Evidence from Surveys of Nonclassroom-Based Charter School Principals and Teachers

In this chapter, we present information on changes in school operations and the administrative burden that resulted from SB 740, using data from our survey of nonclassroom-based school principals. Following this, we analyze information gathered from our survey of teachers in nonclassroom-based schools to provide a sense of the way in which they deliver instruction, the amount of contact they have with students, and their reactions to SB 740. The analyses presented in this chapter, combined with those of the previous chapter, provide descriptive information that address the third and fourth research questions guiding this evaluation of SB 740—that is, they offer information regarding the impact of SB 740 and whether or not it has provided an effective and appropriate form of oversight. As mentioned in previous chapters, it should be reiterated that due to the lack of preintervention data—in this case, the lack of baseline surveys—our analyses cannot be viewed as direct evidence of a causal connection between SB 740 and the resulting changes in operations or fiscal patterns. The analyses suggest, however, that certain changes have occurred as well as describe the perceptions of principals and teachers regarding the impact of SB 740.

Nonclassroom-Based Charter School Principals' Views of the Impact of SB 740

Nonclassroom-based charter school principals have been on the front lines of the effort to sustain state funding for their operations and are perhaps more keenly aware of the effects of SB 740 than any other

group of individuals in the educational system. We therefore surveyed the principals of all nonclassroom-based charter schools in the state to obtain their views regarding the impact of SB 740.[1] The survey included several questions designed to uncover the effects of SB 740 on specific aspects of school operations and several questions designed to assess the amount of administrative burden imposed on nonclassroom-based charter schools in compliance with SB 740. It should be noted that although principals' responses to the survey were undoubtedly indicative of actions taking place in their schools, the self-reported measures that we gathered might contain some degree of error due to a lack of precision or exaggeration. Nevertheless, these findings represent their opinions and are thus informative in this regard at the very least.

Principals' Reports of Changes in School Operations Resulting from SB 740

We asked principals a number of questions about their direct responses to SB 740. In order to meet the threshold of 80 percent of revenues spent on certificated salaries, for example, they might have hired more teachers. Our interviews with school administrators and charter school advocates indicated that the fiscal strain imposed by SB 740 may have led to cutbacks in other areas, however. Several of the administrators we interviewed voiced concerns about the need to close schools or programs or to spend down reserves in order to survive, and many administrations expressed dismay over not being able to include facilities costs in the calculation of instructional expenditures, although this problem has since been largely resolved.[2] We therefore asked principals a set of questions that addressed these issues. The set of questions began, "As a result of SB 740, has this school …" and continued with a list of items related to issues of hiring, classroom-based instruction, school or program closures, reserves, and the use of facilities. Table 6.1 illustrates the percentage of principals responding in the affirmative to each of these questions.

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[1] Details regarding the survey and data collection can be found in Appendix B.

[2] As noted in Chapter Three, a new formula has been accepted to allow for some facilities expenditures to be included in the calculation of instructional spending. This new rule will be in effect in the 2004–2005 year.

Table 6.1
Percentage of Nonclassroom-Based Principals Reporting Changes in Specific Aspects of School Operations as a Direct Result of SB 740

As a result of SB 740, has this school…	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools	Schools that Received Funding Cuts	Schools that Received Full Funding
Hired new teachers?	28	24	16	36	38	17
Let teachers go?	14	0	11	20	14	3
Closed parts of the school (e.g., facilities, programs, learning centers)?	19	38	11	16	36	3
Spent reserves?	48	52	21	66	60	37
Utilized facilities more intensively	30	57	21	20	45	13
Utilized facilities less intensively	0	0	0	0	0	0
Reduced the size of facilities	5	5	11	5	7	3
Experienced strain on facilities	57	71	32	57	74	47

SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.

We see from the table that a minority of principals (28 percent) reported hiring new teachers. Greater percentages (36 percent) of principals in hybrid schools hired new teachers than in other schools. Smaller percentages of principals reported letting teachers go, but this occurred more frequently in hybrid schools than in others, suggesting that SB 740 may have led these schools to turn over some of their staff. Taken as a whole, these reports do not contradict the prediction that more teachers would be hired as a result of the need to meet SB 740's threshold of spending on certificated salaries. From the table, however, it does not appear that the hiring of new teachers was a particularly widespread phenomenon. As some of the stakeholders we interviewed told us and as was discussed in the previous chapter, the certificated-salaries threshold could have been met by paying existing teachers higher salaries rather than by hiring more teachers.

Closures of parts of the school, such as facilities, programs, and learning centers, were reported by 19 percent of principals, but independent-study schools and schools that had received funding cuts were far more likely to report this than other types or sizes of schools. These closures of parts of schools indicate partial damage to surviving institutions. Thus this information can be added to the information on the closures of entire schools that was discussed in the previous section.

Nearly half the principals reported spending down reserves, with hybrids and independent-study schools leading the way. The spending of reserves was reportedly far more prevalent in schools that had received funding cuts than in those that had not. This is consistent with the picture of schools losing money obtained from our analyses of the information contained in the SB 740 forms.

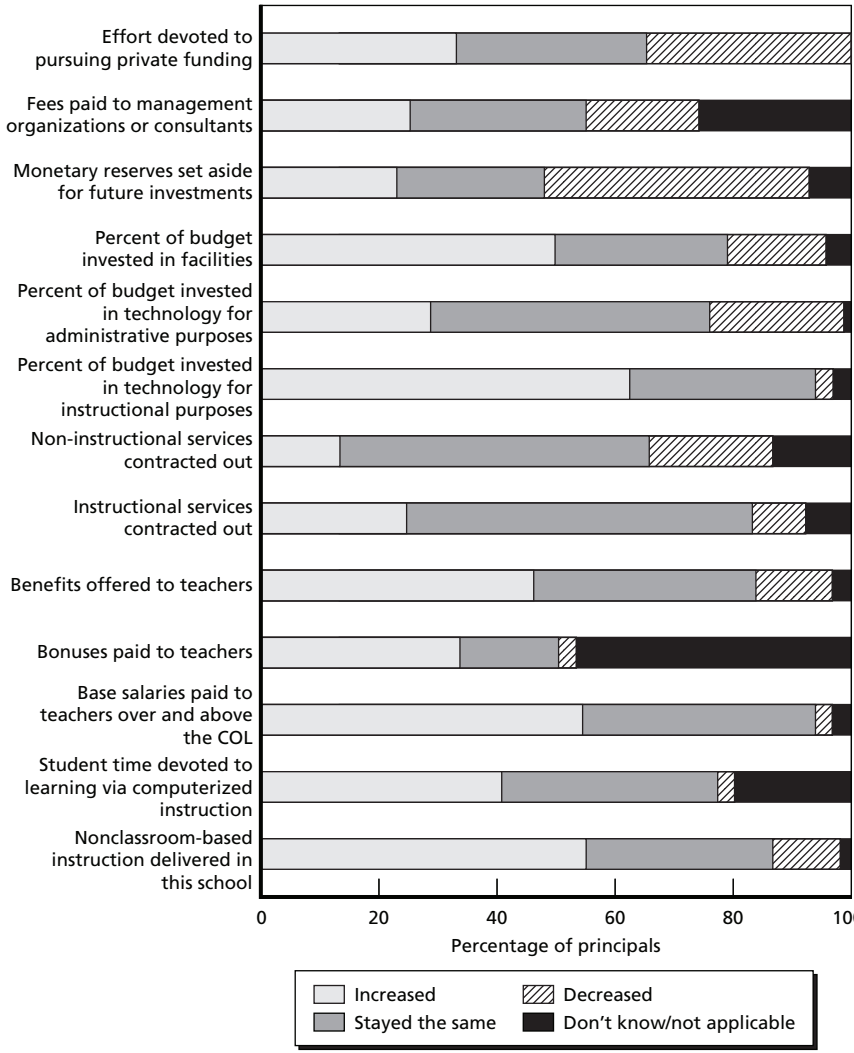
Overall, 30 percent of principals reported utilizing their facilities more intensively, and a majority (57 percent) reported experiencing a strain on them. Independent-study principals reported intensification and strain in the use of facilities at a much higher rate than others, although it should be noted that the rates were substantial for all types of schools. Again, we see that principals in schools that had received funding cuts reported a much higher degree of strain on facilities than those in schools that had received full funding.

The findings displayed in the table indicate that the changes in the use of facilities and the spending of reserves were the most frequent responses to SB 740, followed by the hiring of new teachers and the closure of parts of the school. The findings also suggest that independent-study and hybrid schools were the most responsive to SB 740 along the dimensions listed. It may have been the case that home-study schools were somehow less affected by SB 740 or lacked the flexibility to make some of these changes.

In addition to questions inquiring explicitly about responses to SB 740, we asked a series of questions about changes in operations that had occurred over the three years since SB 740 had come into effect—that is, changes that were not necessarily linked to SB 740. A number of stakeholders noted that the threshold percentage for funding credentialed staff had caused some schools to increase their compensation to teachers, which does not necessarily translate into improved educational quality. Schools may have accomplished this by instituting salary bonuses and by increasing benefits to teachers, even to part-time teachers who did not require such benefits. In addition, interviewees suggested that the focus on funding credentialed staff may limit the educational approaches that nonclassroom-based schools can use, forcing these schools into more conventional, classroom-based educational approaches rather than implementing other approaches that may be more technology intensive. While SB 740 was not intended to regulate instruction, most stakeholders we interviewed acknowledged or complained that the funding process has constrained the autonomy of nonclassroom-based schools to make budget allocations, such as expanding facilities or educational programs, based on instructional goals that diverge from those of the traditional classroom-based model. Some stakeholders described the certificated-staffing requirement as "throttling innovation," particularly approaches that use sophisticated educational software in place of teachers. We therefore investigated these issues in the next set of questions.

The questions began, "Over the past three years, has the amount of …" followed by a list of several possible financial and allocation decisions that might have been made, with the response categories being "increased," "not changed," "decreased," or "not applicable." Figure 6.1 lists the items and presents the responses.

Figure 6.1
Percentage of Principals Reporting Changes in Operations over the Past Three Years



SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
RAND *MG323-6.1*

Large percentages of principals reported increases in teacher salaries (54 percent), bonuses offered to teachers (33 percent), and benefits offered to teachers (46 percent) over the course of the three years since the inception of SB 740. These findings accord with what one might

expect as a result of SB 740, given the need to maintain threshold levels of expenditures on certificated salaries and benefits. In addition, they give substance to the concern that this particular requirement of SB 740 might lead to higher pay for teachers rather than increases in the exposure of students to teachers.

The large percentage of principals reporting decreases in reserves (45 percent) also accords with expectations and concerns expressed by the stakeholders we interviewed and is consistent with our previously discussed findings regarding the fiscal strain evident in nonclassroom-based schools.

Interestingly, however, some of these principals' reports run counter to predictions regarding the impact of SB 740. Increases in the percentage of budget invested in facilities reported by 49 percent of principals, for example, are surprising in light of the fiscal pressures applied by SB 740. Similarly, the increases in the amount of nonclassroom-based instruction reported by 55 percent of principals seem somewhat inconsistent with the fears expressed in many of our interviews with stakeholders and with responses to the prior question linked explicitly to the impact of SB 740. The increases reported by principals are consistent with the findings presented in the previous section that showed a slight overall increase in nonclassroom-based ADA in charter schools in general. These findings call into question the validity of some of the commonly held perceptions of the negative impact of SB 740 on investments in facilities and on the survival of nonclassroom-based instruction.

The increase in the percentage of budget invested in instruction-related technology reported by 62 percent of principals is an interesting phenomenon. Given the need to maintain high levels of spending on instruction, it can be viewed as consistent with expectations. Given the need to channel funding into certificated salaries, however, it is somewhat surprising and appears to run counter to fears expressed by charter school advocates that technological innovation might be stifled as a result of SB 740.

Principals' Reports of the Administrative Burden Imposed on Schools by SB 740

An essential component in evaluating the SB 740 process is a consideration of the administrative burden it imposes on nonclassroom-based schools.

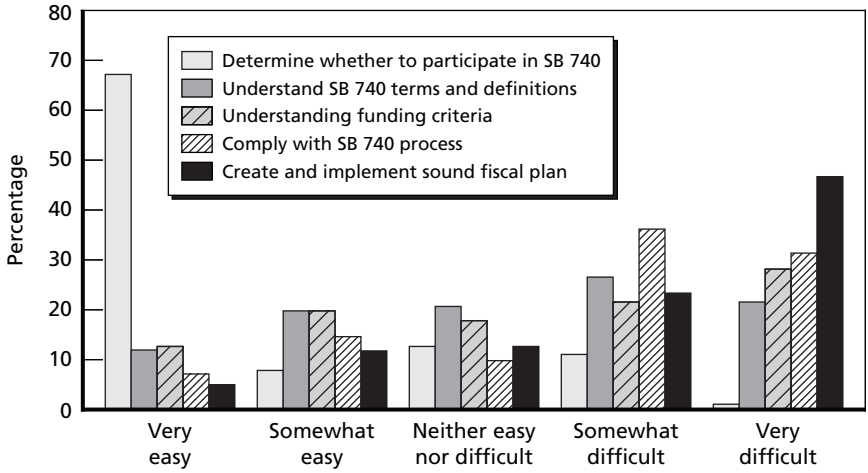
A majority of the individuals we spoke to in our interviews described the process as "cumbersome" and "time-intensive" for all stakeholders, particularly for those in the charter schools and the CDE, as well as members of the ACCS. Some expressed the opinion that the burden was lessening over time, as schools had become more familiar with the process. Others complained that SB 740 remained unduly burdensome and had "cast a wide net" to catch only a few poorly managed schools. Several expressed concern that the burden was disproportionately high for small schools.

One ongoing problem they cited was the potential for confusion and inaccurate reporting by charter schools. Interviewees suggested that certain terms on the funding forms were unclear or could be interpreted in different ways. For instance, several interviewees were concerned that some charter school personnel were reporting only certificated-teacher costs, rather than all certificated-staff costs, as their certificated-staff costs. Several interviewees also responded that the forms were not clear as to where to include costs associated with certificated contract staff.

A major criticism of the SB 740 process was the timing of funding determinations, which has frequently occurred during the second half of the school year. The uncertainty regarding funding determinations has hindered the capacity of schools to plan for future expenditures, which could, in some cases, be "devastating." Some schools that receive funding cuts late in the year may have already used up a disproportionate amount of their funds before their funding determination dates and they find themselves with little time to adjust their costs. Schools that take a conservative approach and use funds sparingly under the assumption that they will not receive full funding may then find that they had deprived their operations of funding unnecessarily and be hard-pressed to spend extra funds effectively before the end of the year.

We conducted a set of analyses to assess the extent of the burden placed on schools. We first asked school principals a series of questions designed to provide a sense of the difficulty they experienced in complying with the process. We asked how easy it was to determine whether their school should participate in the SB 740 funding determination process, understand the terms and definitions used in the process, understand the funding criteria, comply with the process, and create and implement a sound fiscal plan. Figure 6.2 presents the results.

Figure 6.2
Principals' Reports of the Difficulty of Complying with the SB 740 Funding Determination Process



SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
RAND *MG323-6.2*

The majority of principals—67 percent—found it easy to determine whether or not to participate in the SB 740 funding determination process. Approximately half the principals found it either somewhat or very difficult to understand the terms and definitions used in SB 740 and the funding criteria. A large majority of principals found it somewhat or very difficult to comply with the process (68 percent) and to create and implement a sound fiscal plan as a result of SB 740 (70 percent).

Next, we obtained a sense of the type of effort that went into compliance. The survey of nonclassroom-based school principals included a list of possible activities that might have been undertaken in the course of complying with SB 740 beyond simply filling out the funding determination forms sent out by the School Fiscal Services Division of the CDE. Table 6.2 displays this list and the percentage of school principals who reported that they or personnel from their school had engaged in these activities.

The information presented in the table indicates that the majority of schools sent personnel to the ACCS or SBE meetings in Sacramento and that a great deal of communication took place between school administrators and the CDE, ACCS, and SBE members. Informational

Table 6.2
Percentage of Nonclassroom-Based Principals Reporting That School Personnel Engaged in Various Actions Relating to the SB 740 Funding Determination Process

	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools	Schools That Received Funding Cuts	Schools That Received Full Funding
Attended meetings of the ACCS or SBE	72	81	53	75	83	57
Met in-person with members of the CDE, ACCS, or SBE	48	62	32	55	69	27
Communicated from a distance with members of the CDE, ACCS, or SBE	84	90	79	84	90	80
Attended informational workshops or sessions	70	81	68	70	81	60
Consulted with advocacy or technical assistance groups	88	90	74	91	90	80
Consulted a legal services firm	44	62	42	43	67	13
Filed a grievance or lawsuit	11	38	0	5	24	0
Held additional meetings with county, district, or chartering authority administrators	45	52	32	52	57	40
Filed an appeal	16	10	0	27	17	17

SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.

workshops and consultations with various groups providing assistance were also widespread. In general, the independent-study schools appeared to be the most proactive in engaging in these activities, while the home-study schools appeared to be the least proactive. In addition, it is interesting to note that 38 percent of independent-study schools and 5 percent of hybrid schools reported filing a grievance or lawsuit, and 10 percent of independent-study schools and 27 percent of hybrid schools reported filing an appeal regarding their funding determinations. Clearly, a great deal of activity above and beyond the submission of forms had ensued as a result of SB 740, and much of this activity spread to outside organizations and legal-service providers. We also see that schools receiving funding cuts engaged much more heavily in these types of activities than those that did not.

To obtain a sense of the amount of staff time that had been devoted to compliance with the SB 740 funding determination process, we asked principals to "estimate the approximate number of total staff hours spent on the SB 740 funding determination process (e.g., filling out forms, attending ACCS meetings, workshops, etc.)." Table 6.3 displays the average number of staff hours reportedly spent in the 2001–2002 and 2002–2003 school years. It also displays the total number of hours spent across all schools and the average number of hours spent per ADA in complying with the SB 740 process. As the numbers in the table indicate, the process created a substantial burden in terms of staff time, the amount of which actually increased in the second year, implying that the burden did not decrease as schools went through the process a second time, as some of the stakeholders we interviewed had suggested. The overall level of the burden of compliance gives credence to those critics of the process who suggest that all nonclassroom-based schools are paying the price for a few bad apples.

Our interviews with key policymakers indicated that the impact of SB 740 and the resultant administrative burden on certain types of schools, particularly small schools that did not have dedicated business officers, might be disproportionately high. We see from the table that independent-study schools spent more time on a per-pupil basis devoted to compliance with SB 740 than other schools. In addition, we see that small schools spent a larger amount of time on a per-pupil

Table 6.3
Principals' Reports of Staff Hours Spent on the SB 740 Funding Determination Process

	All NCB Schools	Independent-Study Schools	Home-Study Schools	Hybrid Schools	Small Schools (Fewer than 250 students)	Medium Schools (250–749 students)	Large Schools (750 or more students)	Schools that Received Funding Cuts	Schools that Received Full Funding
2001–2002									
Average staff hours	177	253	70	170	101	112	429	225	126
Total staff hours	14,013	5,978	1,524	6,031	4,324	2,778	6,892	8,384	4,913
Staff hours per pupil	0.4	0.7	0.2	0.4	0.9	0.3	0.3	0.3	0.7
2002–2003									
Average staff hours	279	496	58	268	163	145	728	403	182
Total staff hours	24,553	10,041	1,240	11,061	7,691	3,139	13,704	15,659	5,358
Staff hours per pupil	0.6	0.9	0.1	0.6	1.5	0.3	0.5	0.5	0.7

SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.

basis than medium or large schools. This finding substantiates the concern expressed by stakeholders that the process places a disproportionate burden on small schools. Not surprisingly, schools that received funding cuts collectively spent a great deal more time on compliance than schools that received full funding, although on a per-pupil basis the latter group spent more time than the former.

Teacher Reports Regarding Instruction in Nonclassroom-Based Schools and the Impact of SB 740

A thorough investigation of the impact of SB 740 and the appropriateness of the SB 740 funding determination process requires an understanding of relevant aspects of the nature of instruction in these schools, some of which can only be captured by asking teachers directly about their teaching and their views. We therefore surveyed teachers in nonclassroom-based schools to investigate the ways in which they used their instructional time, the amount of direct contact they had with students, their use of on-site facilities, their satisfaction with school operations, and their perceptions of the impact of SB 740.[3] With regard to the amount of direct contact teachers had with students, we conducted analyses to test the strength of the relationship between the reports of teachers and the SB 740 measures relating to student exposure to teachers.

Characteristics of the Sample of Teachers in Nonclassroom-Based Schools

The 227 respondents to the survey were composed of 79 teachers in independent-study programs, 104 in home-study programs, 13 in classroom-based programs,[4] and 31 who provided instruction in different types of programs.[5] Table 6.4 shows the characteristics of the teachers in the sample, overall and by type of program.

[3] Details regarding the survey and data collection can be found in Appendix B.

[4] It was not possible at the outset to distinguish teachers who taught in nonclassroom-based programs from those who taught in strictly classroom-based programs at hybrid schools, so some of the individuals surveyed were classroom-based teachers only.

[5] In general, teachers were assigned to the "mixed or other program" category if they supervised or instructed substantial numbers of students in more than one type of program. If a teacher

Eighty-two percent of the teachers in the sample had full teaching credentials. All teachers had at least a bachelor's degree, and 36 percent had master's degrees. A majority worked full time, were female, and taught a combination of elementary and secondary students. The average teacher had 11 years of teaching experience, but 6 percent of teachers had no prior experience. Approximately three-quarters of the teachers in the sample had prior teaching experience in public schools, and approximately three-quarters had prior experience in private schools.

Table 6.4 also shows that the characteristics of teachers varied according to the type of program in which they taught, and in some cases these variations across programs were statistically significant.[6] Independent-study teachers, for example, were more likely to be teaching at the secondary level and to lack prior teaching experience than other types of teachers. Home-study teachers were more likely to have a master's degree and to be teaching both elementary and secondary students than other types of teachers.[7] Teachers who taught a mixture of programs had significantly fewer years of teaching experience and were more likely to be working part-time than other teachers.

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had more than 60 percent of his or her students in an independent-study program, that teacher was categorized as an independent-study teacher. Teachers were assigned to the home-study category using the same rule. A small number of teachers—only four—had all or a majority of their students in a work-related program. These teachers were assigned to the mixed or other program category.

[6] Because our teacher survey represented only a sample and not the entire population of teachers in nonclassroom-based schools, it was necessary to apply statistical tests to analyses that investigated differences among teachers in different types of programs. This was needed to ensure that variation within groups of teachers was small enough to justify comparisons across groups. The method employed for detecting significant differences was to regress outcomes (using ordinary least squares in the case of continuous dependent variables and logistic regression in the case of dichotomous dependent variables) on variables indicating whether a teacher taught in an independent-study program, a home-study program, a mixed nonclassroom-based program, or a strictly classroom-based program. Significance was reported when p-values for the associated regression F or Chi-squared statistics were 0.05 or smaller. All regressions adjusted standard errors for the clustering of teachers within schools.

[7] As mentioned in Chapter Two, home-study teachers are distinct from the parents who deliver instruction to their children. These parents are not considered "teachers."

Table 6.4
Characteristics of the Sample of Teachers in Nonclassroom-Based Schools

	Overall	Independent-Study Programs	Home-Study Programs	Mixed or Other Programs	Classroom-Based Programs
Numbers of teachers	227	79	104	31	13
Percent with a full teaching credential	82	73	87	83	85
Percent with a masters degree	36	8	19	6	2
Percent full-time	68[a]	77	66	48	85
Percent female	77	70	83	77	69
Percent teaching elementary students only (prekindergarten through grade 6)	4	3	5	3	11
Percent teaching secondary students only (grades 7 through 12)	42[a]	80	14	39	22
Percent teaching both elementary and secondary students	54[a]	18	81	58	67
Average years of teaching experience	11[a]	10	14	8	7
Percent with no prior teaching experience	6[a]	14	2	0	8
Percent with prior experience in a public non-charter school	74	70	78	80	62
Percent with prior experience in a public charter school	10	9	8	20	80
Percent with prior experience in a private school	74	68	78	80	62

SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.
[a] Indicates that teachers in various programs showed statistically significant differences at the 5 percent level.

Teachers' Use of Instructional Time and Direct Interactions with Students

The SB 740 funding determination process relies heavily on threshold ratios of pupils to teachers and expenditures on certificated salaries to public revenues, implying that the legislature and the SBE consider the amount of time that teachers, particularly certificated teachers, spend on students to be of great importance. The pupil-teacher ratio and the ratio of salary expenditures to revenues are, however, very rough measures of instructional time spent per student. In our survey of teachers, we asked questions designed to achieve an understanding of the ways in which teachers who taught in nonclassroom-based programs used their instructional time as well as a fairly precise sense of the amount of direct exposure students had to teachers. We then compared some of these measures of exposure with the threshold-ratio tests used in the SB 740 funding determination process to see if the latter appeared to be reasonable approximations of student-teacher contact.

The Allocation of Teacher Time Across Different Activities

We first investigated the ways in which teachers used their time for instructional purposes by including a survey question that asked them to report how they allocated their time across specified activities. Their responses are shown in Table 6.5.

Teachers in nonclassroom-based programs reported that they worked an average of 33 hours per week, with teachers in mixed programs reporting fewer hours. Teachers allocated the largest portion of their time to directly instructing or supervising students, and the overall allocation of time across different activities also varied according to the type of program in which a teacher taught. Independent-study teachers reported spending the greatest amount of time—nearly half their time—directly supervising or instructing students in a nonclassroom setting. Home-study teachers reportedly spent the most and independent-study teachers the least amount of time in professional or collaborative tasks, such as staff meetings, mentoring, or committee work.

Time Spent in Direct Teacher-Student Contact

To obtain measures of direct teacher-student contact, we first asked teachers how many students they instructed or supervised. Their re-

Table 6.5
Teacher Reports of the Allocation of Their Time Across Various Instructional Activities

	Overall	Independent-Study Programs	Home-Study Programs	Mixed or Other Programs
Hours worked per week	33[a]	35	33	27
Percent of time spent…				
…in classroom teaching	17	15	13	18
…directly instructing or supervising students (with or without parents present)	35[a]	48	33	26
…grading, reviewing, preparing student work when students and parents are not present	26	24	27	34
…in professional or collaborative tasks (e.g., staff meetings, mentoring, committee work)	11[a]	7	14	10
…in other activities	11[a]	5	14	13

SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.
[a] Indicates that teachers in various programs showed statistically significant differences at the 5 percent level.

sponses provided a simple pupil-teacher ratio. The first row of Table 6.6 shows that, on average, teachers in these schools were responsible for the instruction of 36 students. The number of students did not differ significantly by type of teacher.

To obtain a more fine-grained picture of the amount of time spent in direct contact with students, we asked three questions designed to elicit this information. The first question was "On average, how often do you meet with each nonclassroom-based student per month?" Teachers were asked to respond to the question by reporting the number of in-person meetings they had with students per month and the number of telephone or online meetings they had with students per month.[8] The second ques-

[8] Through focus groups with teachers, we were informed that teachers frequently supervised or instructed students via telephone or the Internet.

tion was "On average, how long are the meetings with nonclassroom-based students?" Teachers were then asked to record the average number of minutes per in-person meeting and minutes per telephone or online meeting. The third question was "On average, how many students are typically present during these meetings?" to which teachers were asked to respond by reporting the number of students present at in-person meetings and the number present at telephone or online meetings.

The second through sixth rows in Table 6.6 show that, overall, the nonclassroom-based teachers in our sample reported that they saw students an average of four times per month and communicated with students on the telephone or online an average of two times per month. They also reported that, on average, the in-person meetings lasted 62 minutes and the telephone or online meetings lasted 11 minutes, and that an average of six students were present at the in-person sessions and two were present at the telephone or online sessions.

As a way of aggregating this information to obtain an informative indication of overall amounts of student exposure to teachers, we created two new measures. By multiplying the number of meetings per month by the time spent at each meeting and adding these numbers for in-person and telephone or online sessions, we were able to obtain a measure of total time spent in direct contact with each student for each teacher. The penultimate row of Table 6.6 indicates that, on average, teachers spent 270 minutes (4.5 hours) per month meeting with each student.

In addition, we were able to create a measure of the amount of time a student might expect to receive one-on-one attention from a teacher by dividing the amount of time spent in face-to-face meetings by the number of students present at these types of meetings, doing the same for telephone or online meetings, and adding these two numbers. This measure represented a type of "estimated teacher time per pupil" ratio that served as a proxy for the amount of personal attention each student might expect to receive from his or her teacher, under the assumption that teachers would divide their time equally among students. This measure is shown in the last row of the table. We see that a particular student might expect to receive approximately 69 minutes—or a little over an hour—of individualized instruction from a particular teacher per month.

Table 6.6
Measures of Teacher-Student Contact

	Overall	Independent-Study Programs	Home-Study Programs	Mixed Programs
Average number of students instructed or supervised per teacher	36	40	30	40
Number of in-person meetings with each student per month	4[a]	7	2	3
Number of telephone or online meetings with each student per month	2	2	2	3
Average number of minutes per in-person meeting	62	58	65	65
Average number of minutes per telephone or online meeting	11[a]	7	11	19
Average number of students present at in-person meetings	6	4	7	7
Average number of students present at telephone or online meetings	2	1	2	5
Total minutes meeting with each student per month	270[a]	373	189	270
Total minutes of teacher time per month per individual student	69[a]	96	49	64

[a] Indicates that teachers in various programs showed statistically significant differences at the 5 percent level.

The various measures of exposure to teachers differed, in some cases significantly, by type of nonclassroom-based program. As can be seen from the table, independent-study teachers reported meeting more frequently with students in person—more than three times as often as home-study teachers and more than twice as often as mixed-program teachers. The amount of telephone or online interaction did not differ significantly by teacher type, but the length of these meetings varied significantly, with teachers in mixed programs reporting the longest meetings. In addition, our constructed measure of the overall amount of time spent with each student differed significantly by teacher type. We found that independent-study teachers reportedly spent an average of 373 minutes—or a little more than 6 hours—with each student per

month, compared with about 3 hours for home-study and 4.5 hours for mixed-program teachers. The constructed measure of time per individual student also differed significantly by program, with independent-study teachers reportedly spending an average of 96 minutes per individual student, compared with 49 minutes for home-study teachers and 64 minutes for mixed-program teachers. In interpreting these findings, it is important to bear in mind that although many of the differences among different types of teachers are large and significant, these measures are based on self-reported data and may contain error.

We also checked to see whether these exposure measures differed according to whether teachers taught in schools that had received funding cuts versus those that received full funding. No significant differences were found for any measure, with the exception of the average number of times per month teachers engaged in telephone or online meetings with students. In this case, teachers in schools that had received funding cuts reported two such meetings per month, as opposed to one meeting reported by those in schools receiving full funding.

In order to assess the relationship between the SB 740 threshold ratios and our more accurate measures of teacher-student contact, we calculated the correlations between these measures. We linked school-level measures of the pupil-teacher ratio and the percentage of revenues spent on certificated salaries reported on the SB 740 forms to data from the teacher survey and performed an analysis designed to test whether the teacher-reported measures of exposure to students were correlated with the school-level measures.[9] For this analysis, we focused on the relationships exhibited in Table 6.7. None of the teacher-level measures of exposure to students, whether it was the number of students they said they supervised, the total number of minutes per month they spent meeting with students, or the total number of minutes of teacher time per student, was significantly correlated with school-reported pupil-teacher ratios or the percentage of expenditures spent on certificated

[9] This analysis was conducted as follows: Standardized versions of the teacher-level measures were regressed on standardized versions of each of the two school-level measures in separate regressions. A random-intercepts-type mixed model was used to account for the uneven clustering of teachers within schools—that is, some schools had more teachers represented than others—and to accurately estimate coefficient and standard errors of the school-level variables. The coefficients represent correlations and are reported in Table 5.4.

Table 6.7
Correlations Between Teacher-Reported Measures of Contact with Students and School-Level Measures Used as Thresholds by SB 740

	Relationship to School Pupil-Teacher Ratio	Relationship to School Percentage of Revenues Spent on Certificated Salaries
Average number of students instructed or supervised per teacher	–0.10	.03
Total minutes meeting with each student per month	–0.13	–0.17
Estimated total minutes of teacher time per month per individual student	–0.20	–0.16

SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers and SB 740 Funding Determination Forms.

staff at the standard levels of significance.[10] Therefore, these two criteria used in the SB 740 funding determination process appear to bear little relationship to the direct exposure of students to teachers.

Teachers' Use of On-Site Facilities

We asked teachers for information describing the types of formats and settings used to deliver instruction to or supervise students and parents. Table 6.8 lists these formats and displays the percentage of teachers who said they used these modes of interacting with students and parents at the school site and off-site.

We found that, in general, nonclassroom-based teachers appeared to make substantial use of school facilities. Overall, a higher percentage of teachers claimed to deliver instruction via each of these modalities at the school site rather than off-site. This use of the school site was particularly high for independent-study teachers. A majority of teachers used the school site for meetings with students and their parents, and independent-study teachers were far more likely than other types

[10] The total number of minutes of teacher time per student was weakly correlated with school-level pupil-teacher ratio. This correlation was significant at the 10 percent level rather than the 5 percent level generally used as the cutoff point for significance.

Table 6.8
Percentage of Nonclassroom-Based Teachers Using Various Instructional Interaction Modes On- and Off-Site

		Overall	Independent-Study Programs	Home-Study Programs	Mixed or Other Programs
Individual meetings with students	At the school site	53[a]	81	41	42
	Off-site	41	32	50	48
Individual meetings with parents	At the school site	43	53	43	32
	Off-site	36[a]	22	48	45
Individual meetings with parents and students	At the school site	56[a]	71	56	35
	Off-site	44[a]	27	60	48
Classes or workshops with students	At the school site	41[a]	49	44	23
	Off-site	17[a]	9	20	29
Classes or workshops with parents	At the school site	19	18	22	19
	Off-site	8[a]	1	13	13
Classes or workshops with parents and students	At the school site	10	16	19	13
	Off-site	9[a]	3	13	16

SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.
[a] Indicates that teachers in various programs showed statistically significant differences at the 5 percent level.

of teachers to use this setting for meetings. In addition, independent-study teachers were more likely than others to hold classes at the school site. Home-study and mixed-program teachers, however, were more likely to use a few of these interaction modes off-site than on-site. As might be expected, home-study teachers were more likely than other teachers to hold meetings or classes off-site—nevertheless, their reported use of school facilities remained substantial.

Teachers' Satisfaction with the School Environment

We asked teachers a series of questions aimed at determining their level of satisfaction with specific aspects of the school environment. In par-

ticular, we wished to assess whether satisfaction levels with features of school operations that could be affected by SB 740 appeared to be high or low relative to satisfaction with other features of the environment. Figure 6.3 lists these features and displays the teachers' responses.

In general, teachers displayed strikingly high levels of satisfaction on all features listed. Dissatisfaction, however, was highest for budget-allocation decisions and school facilities, with 19 and 16 percent of teachers reporting dissatisfaction with these two features, respectively. It could be argued that this dissatisfaction stemmed, in part, from the impact that SB 740 had on the budgets and facilities of large numbers of nonclassroom-based charter schools, but we have no direct evidence that this is the case, and satisfaction levels did not differ according to whether the school in which teachers taught had received a funding cut. The analyses presented in the next section, however, provide some evidence that problems in these particular areas of school operations are linked in the minds of teachers to SB 740.

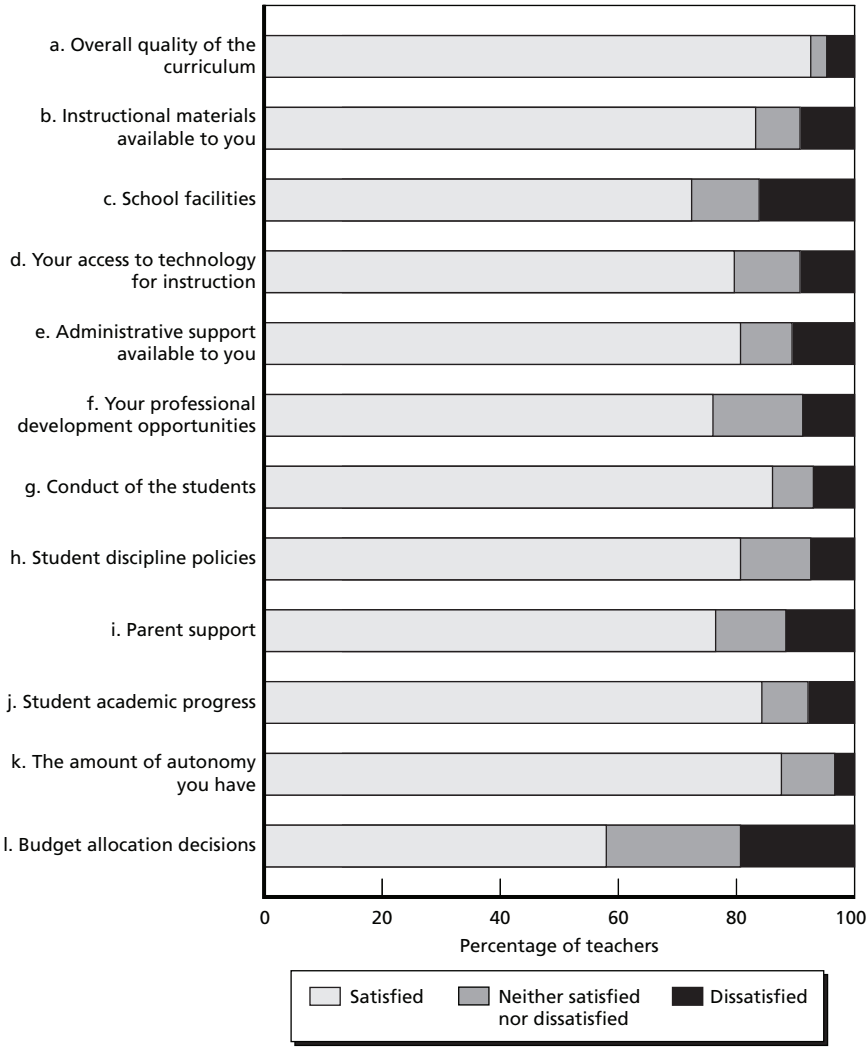
Teachers' Perceptions of the Impact of SB 740

When asked whether they were familiar with the SB 740 funding determination process, 39 percent of the teachers in our sample said yes.[11] Of this group, 83 percent felt that the process had had an impact on instruction in the school, and, not surprisingly, teachers in schools that had received funding cuts were significantly more likely to have felt this way than those in schools that had not experienced cuts (94 versus 55 percent, respectively). On average, teachers perceived the impact of SB 740 to have been more negative than positive, regardless of the amount of funding their school had received. Figure 6.4 shows that 70 percent of these teachers felt that the impact had been negative. This perception did not differ significantly across different types of programs or according to whether the school in which teachers taught had received a funding cut.

We also asked this group of teachers a series of questions that described their perceptions of some of the possible ways that SB 740

[11] This percentage of teachers who were aware of SB 740 did not differ significantly according to whether they taught in schools that had received full funding or schools that had received funding cuts.

Figure 6.3
Teacher Satisfaction with Features of the School Environment



SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.

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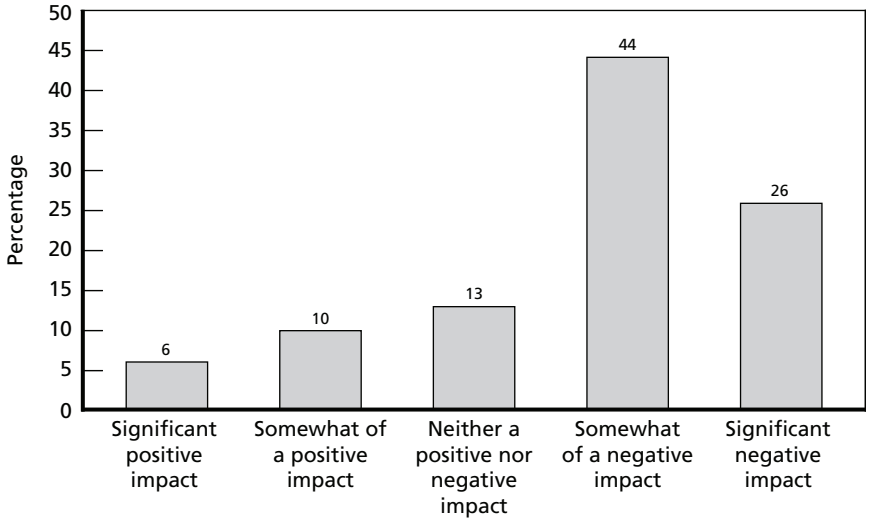
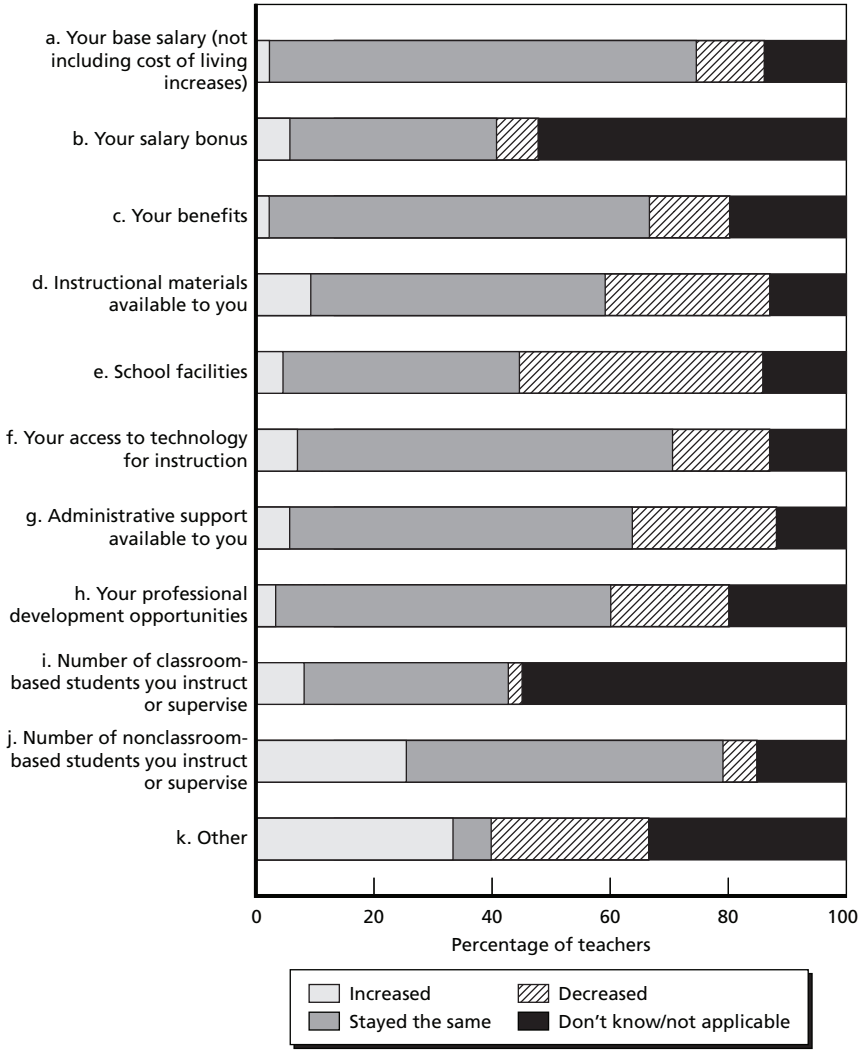
Figure 6.4
Teachers' Ratings of the Impact of the SB 740 Funding Determination Process on Instruction in Their Schools



SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.
RAND *MG323-6.4*

may have had an impact on them or their school. The questions listed several quantifiable aspects of school operations and asked whether the teachers thought these had increased, stayed the same, or decreased as a result of SB 740. Figure 6.5 lists these questions and the responses to them. As can be seen from the figure, a sizable percentage of teachers (41 percent) felt that facilities had decreased as a result of SB 740. Smaller but nonnegligible percentages felt that instructional materials (28 percent), administrative support (24 percent), professional development opportunities (20 percent), and access to technology for instruction (16 percent) had decreased as a result of the legislation. Twenty-six percent of teachers reported that the number of nonclassroom-based students assigned to them had increased, a somewhat surprising finding in light of emphasis of SB 740 on pupil-teacher ratios, but not inconsistent with the findings presented earlier indicating that the funding determination process appeared to have had only a small impact on these ratios.

Figure 6.5
Teachers' Perceptions of Specific Factors Affected by the SB 740 Funding Determination Process



SOURCE: 2004 RAND survey of nonclassroom-based charter school teachers.

RAND *MG323-6.5*

Summary

In this chapter, we drew suggestions regarding the impact of SB 740 on the finances, operations, and instruction in nonclassroom-based schools from surveys of principals and teachers. Analyses of data from the survey of nonclassroom-based school principals supported many, though not all, of the concerns expressed by the stakeholders we interviewed regarding the impact of SB 740 and corroborated the evidence of fiscal strain found in the financial data. A large percentage of principals reported spending down reserves as a result of SB 740. The majority of principals, and particularly those in independent-study schools, reported experiencing a strain on their facilities and having difficulty creating and implementing a sound fiscal plan as a result of SB 740. A majority of principals reported that in the three years since SB 740 came into effect, teacher salaries had increased beyond the cost of living. Principals' reports, however, tended to allay some of the concerns expressed by stakeholders that technological innovation or nonclassroom-based instruction had been suppressed as a result of SB 740.

A large majority of principals reported that personnel from their schools engaged in a number of activities related to the SB 740 process beyond the simple filling out of forms. These activities ranged from attending meetings of the ACCS or SBE to filing lawsuits, grievances, and appeals. Principals reported high numbers of staff hours devoted to compliance with SB 740, and the burden of compliance was disproportionately high for small schools.

In our analyses of data from the survey of teachers in nonclassroom-based schools, we found that teachers in the three different types of instructional programs tended to differ in their background characteristics, the way in which they allocated their time, the amount of direct contact they had with students, and their use of site-based facilities for instruction. Links between the pupil-teacher and teacher-expenditure measures used in the SB 740 funding determination process and actual teacher-reported measures of teacher-student contact were weak. Teachers' reports of the amount of contact they had with students did not correlate significantly with the school-level pupil-teacher ratio or the percentage of total school public revenues spent on

certificated salaries, two of the most important measures used in the SB 740 funding determination process.

The lack of correlation between teacher-reported measures of contact with students and school-level percentages of spending on certificated salaries calls into question the relevance of this latter measure to instructional quality. Although our measures of teacher-student contact are based on self-reports and it is possible that direct contact with teachers is an imperfect proxy for the quality of instruction, it is plausible to assume that these factors are related. It is therefore possible that spending on certificated salaries is ineffective as a criterion for funding in SB 740.

A further note of concern arises from the reports of teachers who felt that SB 740 had raised the number of students assigned to them. The reports of teachers who felt that some instructional services and support had declined as a result of SB 740 is additional cause for concern, particularly since evidence gathered from principals and the SB 740 Funding Determination Forms suggested that schools had experienced financial strain. If we add these findings to those derived from the financial data, in which we found that pupil-teacher ratios had declined only slightly in the aftermath of SB 740 and that there was no correlation between changes in these ratios and changes in spending on certificated salaries, we have to question whether the certificated-salary expenditure threshold effectively fulfills the intent behind the legislation.

Together, our findings suggest that although SB 740 may have reached its objectives with regard to profiteering and the allocation of resources in favor of instruction, it may also have inflicted some degree of unnecessary harm on nonclassroom-based charter schools. Shifts in resources and funding cuts may be creating fiscal strains on charter schools without producing the intended effect of promoting greater exposure of students to teachers. While the SB 740 process has accomplished its explicit goals and promoted fiscal accountability, it may have fallen short in improving instruction. Nevertheless, nonclassroom-based instruction in charter schools has not diminished as a result of SB 740 and remains an option available to students and parents desiring a more personalized learning structure than that offered in conventional schools. At this point, it is advisable to devise a strategy for reforming SB 740. Suggestions for improvement offered by stakeholders in the process are discussed in the next chapter.

CHAPTER SEVEN

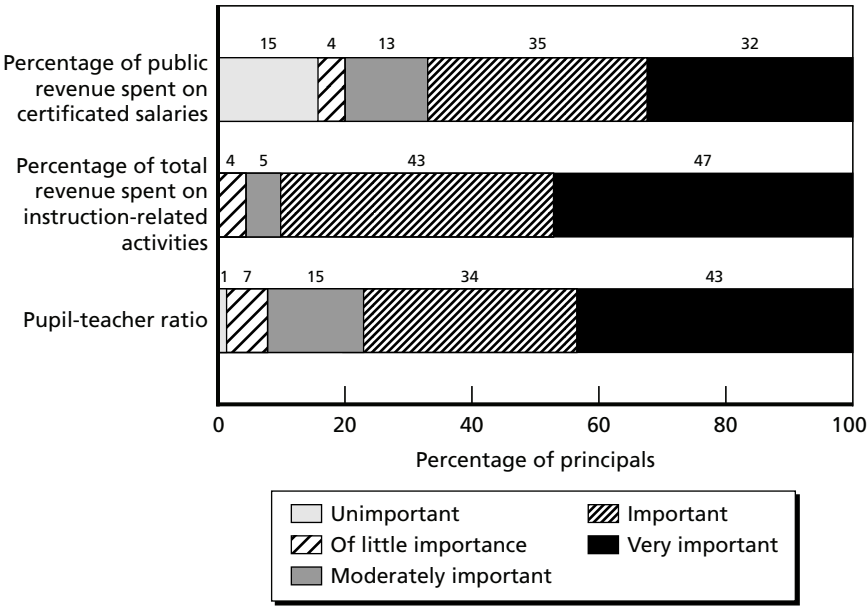
Stakeholders' Suggestions for Improving SB 740

In our interviews with key stakeholders, both advocates for charter schools and proponents of the SB 740 process noted positive outcomes of the process, including reductions in profiteering and greater fiscal accountability in nonclassroom-based schools. However, as we have noted previously, some advocates for charter schools raised concerns regarding the effectiveness, fairness, and legitimacy of the process. As a result, many of these advocates, as well as supporters of SB 740, suggested alternatives or slight changes to the system. In this chapter, we present data from our surveys and interviews to outline some of the suggested improvements.

Principals' Suggestions for Improving the SB 740 Funding Determination Process

Throughout the course of our interviews with nonclassroom-based school administrators, we found that many had given a great deal of thought to ways in which to reform SB 740 and its associated set of regulations. In our survey of principals, therefore, we included questions that solicited their opinions regarding various aspects of the process and strategies for reforming it. We first asked principals about their views of the current system by asking them to assess the importance of the three test thresholds on which funding determinations were based in relation to instructional quality in their schools. Their responses are displayed in Figure 7.1.

Figure 7.1
Principals' Ratings of the Importance of the SB 740 Measures in Relation to Instructional Quality

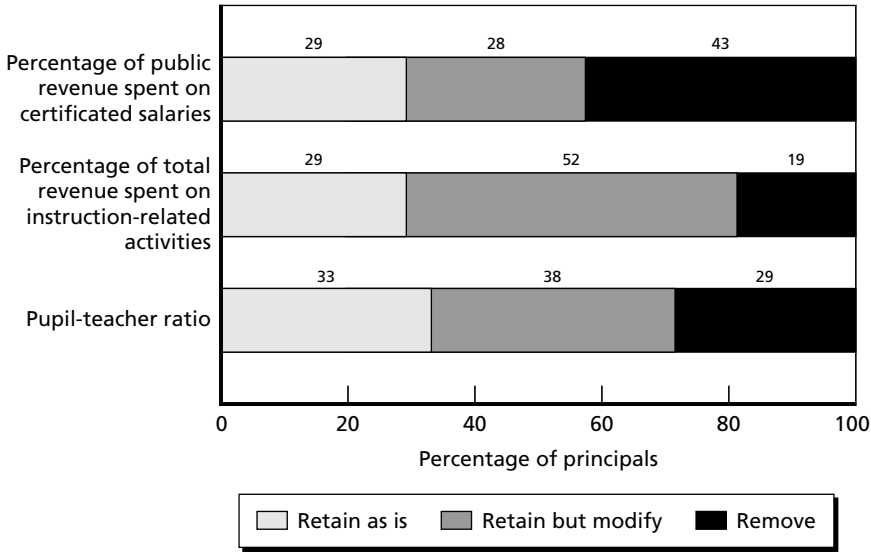


SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
RAND *MG323-7.1*

As the figure illustrates, large percentages of principals perceived the three measures to be important, with the ratio of instructional expenditure to revenues considered to be most important and certificated-staff salary spending somewhat less important. We then asked principals to tell us whether they would like to see changes in the use of these three factors in the SB 740 process. The principals' responses are shown in Figure 7.2.

Despite principals' agreement with the importance of these types of measures, the majority expressed the preference that the ones currently in use as test thresholds in SB 740 be modified or removed. In particular, 43 percent said they would like to see the certificated-salaries requirement removed, and 52 percent said they would like to see the instructional-spending requirement modified. Perhaps, this latter percentage would have been lower if the new facilities formula had been introduced at the time of the survey. Principals were more evenly divided on whether they supported the pupil-teacher ratio requirement, but the largest group (38 percent) said they would like to see it modified.

Figure 7.2
Percentage of Principals Suggesting Changes to the SB 740 Measures



SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
RAND *MG323-7.2*

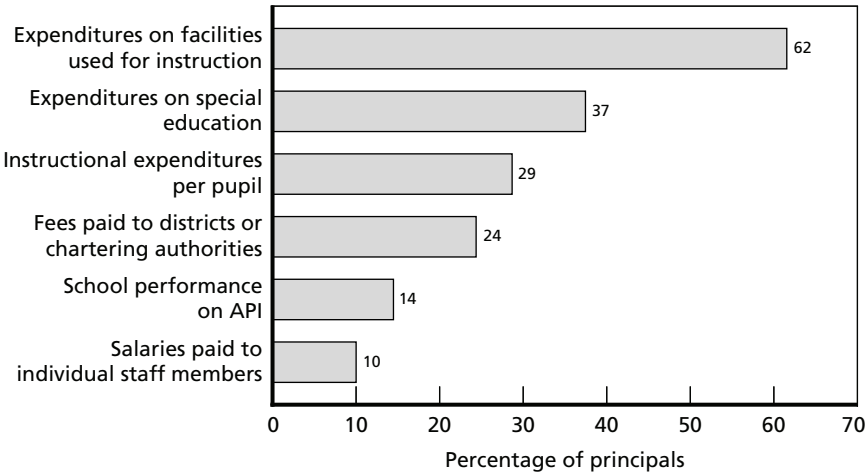
We also asked principals whether they thought the SB 740 funding determination process should be based on other factors besides these three thresholds. The vast majority (82 percent) said yes. In answer to the question "Which new factors should be considered?" principals responded as shown in Figure 7.3.

Facilities topped the list, with 62 percent of principals responding that this issue should be addressed in the process. The other issues listed did not appear to be as important—only a minority of principals felt they should be considered.

Concerns and Suggested Reforms Highlighted in Our Stakeholder Interviews

We now turn to the perceptions and suggested changes highlighted by policymakers, state officials, and charter school advocates and administrators. The reforms promoted by these interviewees address issues

Figure 7.3
Percentage of Principals Who Felt That Various Factors Should Be Considered in the SB 740 Funding Determination Process



SOURCE: 2004 RAND survey of nonclassroom-based charter school principals.
RAND *MG323-7.3*

related to the verifiability of reported data, the fiscal uncertainty and instability created by the process, the problems associated with the certificated-staff spending requirement, the exclusion of certain factors for consideration in the process, and the lack of outcome measures used in the SB 740 process.

The Verifiability of the Reported Financial Data

One ongoing concern expressed during the interviews is that charter school reporting is primarily voluntary, with minimal verification or auditing of charter school responses. The CDE currently reviews school attendance data to confirm whether the appropriate nonclassroom-based charter schools are participating in the determination process. The CDE also checks school reports for "reasonableness" and any missing information. The ability of the CDE to verify the accuracy of responses is hampered, however, by the lack of alignment between the information on the SB 740 forms and the information presented in the annual independent audits that most schools must undergo. Schools that utilize the state Standardized Account Code Structure (SACS) are

better able than others to transfer information from their accounting system to the SB 740 forms, but the SACS is too complex for many schools, particularly small ones, to implement.

As an improvement, a number of interviewees suggested streamlining the SB 740 funding determination forms and aligning the current audit report that charter schools use with the information requested on the SB 740 forms. This would help structure the reports of auditors and provide third-party confirmation of data reported to the state.

Fiscal Uncertainty and Instability

During our interviews, a major criticism of the SB 740 process was the timing of funding determinations, which have frequently occurred during the second half of the school year. The uncertainty regarding funding determinations has hindered the capacity of schools to plan for future expenditures and can, in some cases, be extremely damaging. Some schools that receive funding cuts late in the year may have already used up a disproportionate amount of their funds before their funding determination dates and find themselves with little time to adjust their costs. Schools that take a conservative approach and use funds sparingly under the assumption that they will not receive full funding may then find that they had deprived their operations of funding unnecessarily and be hard-pressed to spend extra funds effectively before the end of the year.

Several interviewees felt that de facto limitations on reserves further constrained fiscal autonomy. They pointed to the fact that schools with high budget reserves generally received adverse funding determinations, making it difficult to plan for expansions in facilities or instructional programs. This sent a signal to schools that saving for a large future investment could prove dangerous. Although the ACCS has recently adopted a formal process for including facilities as a factor to be taken into consideration in funding determinations, the issue of the inability of schools to set aside large reserves has not yet been resolved.

A number of stakeholders also noted that the thresholds for funding determinations may produce some unintended effects. Several interviewees noted that the funding process could result in fluctuating funding determinations—a "yo-yo" effect of increasing and decreasing

funding determinations—for some schools from year to year. This is due to the fact that, all else held constant, funding cuts to a school's revenue in one year would automatically raise the percentage of revenues devoted to certificated salaries and instructional spending in the next year, thus qualifying the school for full funding in the next cycle without the school having changed operations. In our examination of funding determination data, we found no evidence that this has occurred to date, but there is a possibility that this could occur in the future as the SB 740 process continues to be administered.

In response to these challenges, several interviewees suggested moving the determination dates to be earlier, before the school year, in order to provide schools with the ability to plan their budgets accordingly. Also, charter schools advocates argued that the accumulation of excess revenue as a stabilizing strategy should be given greater consideration as a mitigating factor by the SB 740 process. Finally, multiyear determinations were also mentioned as a possible means of creating some measure of funding stability, and these have begun to be instituted more frequently in the most recent cycle.

Problems Associated with the Certificated-Staff Spending Threshold

As mentioned in previous sections of this report, a number of stakeholders noted that the threshold percentage for funding certificated staff had caused some schools to increase their compensation to teachers, which does not necessarily translate into improved educational quality. Schools have accomplished this by instituting salary bonuses and by increasing benefits to teachers, even to part-time teachers who did not require such benefits. In addition, interviewees suggested that the focus on funding certificated staff may limit the educational approaches that nonclassroom-based schools can use, forcing these schools into more conventional, classroom-based educational approaches rather than implementing other approaches that may be more technology-intensive. While SB 740 was not intended to regulate instruction, most stakeholders we interviewed acknowledged or complained that the funding process has constrained the autonomy of nonclassroom-based schools to make budget allocations, such as expanding facilities or educational programs, based on instructional goals that diverge from those of the

traditional classroom-based model. Therefore, several charter school advocates and administrators suggested eliminating the certificated-staff spending criterion from the SB 740 funding determination process.

The Exclusion of Facilities Spending from the Instructional-Spending Requirement

Many interviewees felt that an instructional-spending requirement was needed, but several took issue with the fact that spending on facilities had not been included in this measure. This was particularly a problem for schools with blended or hybrid programs that included both classroom-based and nonclassroom-based instruction. In addition, many charter school advocates felt that it reflected a lack of understanding of the way in which nonclassroom-based charter schools used facilities. Most of these schools use facilities, such as classes, science and computer labs, testing centers, and libraries, for instructional purposes. The new formula for the inclusion of some facilities spending appears to address most of these concerns, however.

The Lack of Outcome Considerations

Some charter school advocates and supporters of the SB 740 process noted that the system focuses on inputs and ignores outputs. These interviewees argued that schools that perform well academically should be exempt from the SB 740 process because, ultimately, student learning should be the focus of educational policies. The recent passage of AB 1137 has instituted guidelines for the renewal of charters based on school performance on the statewide Academic Performance Index (API). Some interviewees mentioned that those guidelines might provide some guidance to exempt high-performing schools from the need to undergo future SB 740 funding determinations based on school performance.

To shed light on the practical applicability of this particular suggestion, we examined the current API outcomes for nonclassroom-based schools. The API data include an index measure of test-score performance and growth for California public schools. However, because of the CDE's rule for reporting an API score for a school, the vast majority of nonclassroom-based schools do not have reported API scores in

2001–2002 or 2002–2003. Of the 118 and 123 schools that received a funding determination in 2001–2002 and 2002–2003, respectively, only 28 and 45 have listed API scores. Because the CDE only provides an API score if a school is open for two consecutive years and if a school meets a threshold of a certain number of students per grade, a large number of nonclassroom-based schools do not receive API scores.[1] In addition, if a school has more than 10 percent of their students excused from the test at the parent's request, then the school's API is not reported, which is true for a number of nonclassroom-based schools. In total, 63.7 and 40.2 percent of the total nonclassroom-based schools for 2002 and 2003, respectively, are missing API test scores. The lack of comprehensive API scores within nonclassroom-based charter schools does not bode well for its use as a criterion for funding. In essence, smaller schools would be unable to avail themselves of a performance-based exemption from the process, yet, as we have seen, the process tends to be disproportionately burdensome for small schools.

For the schools that do have API scores, we examined their funding determination to see if there is a relationship between funding determinations and performance. Because we have only a sample of the population, we conduct a t-test of statistically significant differences in means during our analysis.

Table 7.1 displays the average API scores of those schools that received full funding in 2001–2002 and 2002–2003 school years. In both years, schools that received funding cuts have lower API scores than fully funded schools, but only the 2003 scores are significantly lower statistically. We also examined the API growth scores from the 2001–2002 school year to the 2002–2003 school year and found negative gains for schools receiving funding cuts and positive gains for fully funded schools, but these differences were not statistically significant.

[1] These restrictions are justifiable and important. Small schools may have widely varying scores on standardized tests from one day to the next, because the number of students contributing to the average score is small. Thus, scores in small schools are less reliable proxies for student learning than scores in large schools.

Table 7.1
API Scores of Fully Funded and Less-than-Fully Funded Nonclassroom-Based Schools

Funding Level	2002 API Score	2003 API Score	API Growth 2001–02 to 2002–03
All nonclassroom-based schools	657.67 (N = 42)	677.65 (N = 60)	9.89 (N = 38)
Schools that received funding cuts	651.90 (N = 21)	609.77[a] (N = 13)	–12.55 (N = 9)
Schools that received full funding	663.43 (N = 21)	696.43 (N = 47)	16.86 (N = 29)

SOURCE: SB 740 Funding Determination Forms 2001–2002 through 2003–2004 and CDE API data.
NOTE: The number of schools in each category is in parentheses.
[a] Indicates that the score of those schools receiving less than 100 percent funding is statistically different at the 5 percent level from those schools that receive 100 percent funding.

As currently implemented, SB 740 does not explicitly take academic performance into account in making funding determinations. Our analysis provides some suggestive evidence that the SB 740 process has been more likely to grant full funding to schools with high performance than to those with low performance, but the patterns generally were not statistically significant and the sample is small and incomplete. To fully investigate whether a connection exists between SB 740 funding cuts and school performance, an analysis would require student-level data over time.

It is important to keep in mind, however, that even if a de facto connection existed between cuts in funding made under the current SB 740 process and low API scores, this might not necessarily be a positive outcome of the process, since low-performing schools may be serving the most at-risk students and might therefore be in need of increased support rather than reduced funding. The suggestion to utilize a test-score threshold as an explicit factor in the SB 740 funding determination process is problematic in that it assumes that high-performing schools are more deserving of funding than low-performing schools. In addition, it is of limited application, since nearly half of nonclassroom-based schools do not have API scores.

Summary

In this chapter, we examined information gathered through our principal surveys and interviews to highlight explicit concerns of the current SB 740 process and suggested reforms. In our survey of principals, most felt that the ratio of instructional spending to revenues, as calculated in SB 740, should be modified, and a large percentage felt that the certificated-salaries requirement should be eliminated. A majority of principals felt that facilities expenditures should be explicitly included as a factor in SB 740 funding determinations. In our interviews with policymakers, state officials, and charter school advocates, various interviewees suggested streamlining the reporting process, changing the timing of the funding determinations to be earlier in the year, taking into account factors such as the need for strategic reserves and for spending on facilities, eliminating the certificated-staff spending requirement, and exempting high-performing schools from the funding determination process. These insights are used in the development of our conclusions and recommendations in the next chapter.

CHAPTER EIGHT

Conclusions and Recommendations for Reforming SB 740

Schools that provide nonclassroom-based instruction have represented a rapidly proliferating segment of schools within the charter school movement in California over the past decade. The potential for the misuse of public funds has been high in nonclassroom-based charters, however, due to the nature of the instruction they provide. SB 740 has strengthened the oversight of nonclassroom-based schools and implemented cutbacks in the funding they receive from the state. At this point in time, the SB 740 funding determination process has been implemented for three consecutive school years.

We return to our research questions and reflect on the answers provided by this review.

What does the process entail?

In Chapter Three we described the SB 740 funding determination process in detail—both the way it has evolved over time and the way it currently works.

The process entails the collection of financial data from charter schools offering significant amounts of nonclassroom-based instruction and the determination of funding through the use of a fairly straightforward mechanism—the meeting of thresholds. SB 740 requires that nonclassroom-based charter schools meet three main criteria to receive full funding: (1) at least 80 percent of total revenues must be spent on instruction, (2) at least 50 percent of public revenues must be spent on certificated-staff salaries and benefits, and (3) the pupil-teacher ratio must be equal to or lower than the pupil-teacher ratio in the largest school

district in the county or counties in which the school operates. A school that fails to meet these criteria may receive substantial cuts in its funding. Nearly half the nonclassroom-based charter schools in the state have experienced funding cuts as a result of SB 740. While the funding determination process is simple in concept, this process, as we discuss below, might not be meeting the public-accountability needs envisioned.

Has the process fulfilled the directives of the legislation?

The process has fulfilled many of the explicit directives of the legislation.

The process was intended to reduce the possible profiteering of charter school operators offering nonclassroom-based instruction. Our analysis indicates that profits (as measured by revenues minus expenditures) for nonclassroom-based schools had turned into losses by the third year of the SB 740 process; thus it is reasonable to assume that profiteering has been reduced.

In addition, in an effort to meet thresholds for full funding, nonclassroom-based charters have substantially increased both instructional spending and spending on certificated-staff salaries as a proportion of revenues. Schools have shown only a slight reduction, however, in pupil-teacher ratios. In examining funding determination data provided by the state, we found that nonclassroom-based schools had made several adaptive responses to SB 740 and that the proportion of schools receiving full funding increased over time.

Thus, we conclude that along several fiscal dimensions, the impact of SB 740 has been significant and largely in accordance with the explicit goals of the legislation. Other evidence, however, as provided below, indicates that the process could be improved.

What has been the impact of the process of SB 740 on operations and instruction?

Our analysis cannot determine causality, but indicates that the implementation of the process might be associated with both positive and negative effects on operations and instruction.

On the positive side, in addition to increased spending on instruction and evidence of reduced profiteering, the fiscal transparency imposed by the SB 740 funding determination process has prompted schools to increase their attention to resource allocation and, in some cases, become self-regulating in their requests for per-pupil funding.

On the negative side, the first three years of implementation of SB 740 have been turbulent. Although funding cuts have been phased in gradually over time, the process has created confusion, and the administrative burden placed on nonclassroom-based schools has been significant. In addition, concerns have arisen that the process may have resulted in fiscal instability, an inefficient allocation of resources, and a reduction in innovation. The losses posted by nonclassroom-based charters by the third year of the SB 740 process also raise concerns that the changes schools are making in order to receive full funding, or the funding cuts themselves, are placing some schools in fiscal jeopardy.

Furthermore, although there is general agreement among stakeholders that instructional spending should consume a large proportion of revenues, the impact of the instructional-spending threshold may not have been entirely positive in past years due to its failure to incorporate the cost of facilities adequately into instructional costs. The strain on facilities reported by principals, teachers, and other stakeholders may have had an adverse impact on instruction. This issue has largely been resolved for future cycles, however, with the recent introduction of a new facilities formula to be applied to instructional spending in the 2004–2005 school year's funding determinations. Thus, with the resolution of the facilities issue, the relevance of this SB 740 requirement to educational quality is no longer being questioned.

Finally, our analysis of the surveys of nonclassroom-based principals resulted in other interesting findings, which we did not classify as positive or negative but are relevant to this discussion. For instance, a majority of principals reported increases in nonclassroom-based instruction and the percentage of budget invested in technology since the implementation of SB 740 began. These findings suggest that nonclassroom-based approaches to instruction had not been curtailed by SB 740 and that technological innovation had still been possible notwithstanding.

Has the process provided appropriate and effective oversight?

We found evidence that some aspects of the SB 740 funding determination process were not appropriate or effective.

The fiscal thresholds were established using assumed spending patterns of public schools generally. The use of these fiscal thresholds assumes that public schools have the correct allocation of instructional and certificated spending. Using financial data submitted by nonclassroom-based charter schools in compliance with SB 740 and state data on school district spending patterns, we compared the proportion of nonclassroom-based and traditional school districts meeting these thresholds and found that almost all traditional public school districts met the instructional-expenditure threshold, but a substantial proportion of school districts did not meet the certificated-staff threshold. In fact, a higher proportion of nonclassroom-based schools met this threshold by the third year than traditional public school districts did when the criteria were established. This finding raises questions about the development of the certificated-staff salary threshold.

We also examined whether SB 740 has increased instructional exposure for students. Although we found that the process has increased the proportion of expenditures spent on certificated staff and instructional activities, we found almost no correlation between the growth in these expenditures and the number of certificated teachers and pupil-teacher ratios within the schools, suggesting that the certificated-staff requirement may have led more to increases in compensation for existing teachers than increases in the number of staff. This hypothesis was supported by data from our survey in which a majority of nonclassroom-based school principals reported that in the three years since SB 740 came into effect, teacher salaries had increased beyond the cost of living. In addition, in our survey of nonclassroom-based teachers, the numbers of students teachers supervised or instructed and the amount of time they spent per student did not correlate significantly with the school-level measure of the percentage of total school public revenues spent on certificated salaries.

Finally, in the survey of nonclassroom-based school principals, principals suggested that the burden of compliance with SB 740 had

been high and that this was disproportionately the case for small schools. In addition, principals reported finding it difficult to create and implement a sound fiscal plan as a result of the process.

From the above we conclude that while the process has provided oversight, this oversight might be having deleterious effects, and that some factors used in the oversight process are not adding significantly to the public accountability, while significantly burdening schools. Thus, despite the financial savings to the state and adaptations on the part of nonclassroom-based charter schools to the requirements of SB 740, the success of the legislation as a mechanism for improving education for California students is unclear. In this study, we present evidence that some inefficiencies, unfavorable budgetary trends, and changes in operations may have occurred as a result of SB 740 and that its wide net may have caught many genuinely purposeful schools as well as the few bad apples.

How can the process be improved?

Our analysis and interviews indicate several ways in which the process could be improved.

Underlying the logic behind SB 740 are two questionable assumptions. One is that schools delivering substantial amounts of nonclassroom-based instruction have—or should have—a lower cost structure, and the other is that the resources needed to deliver this type of instruction can successfully be gauged by fixed percentages of revenues. There are problems with both of these assumptions.

First, instruction in nonclassroom-based schools may be less costly given the different educational technology that they employ. On the other hand, they may serve a population of difficult students who thus may be more costly to educate. Since nonclassroom-based charters often serve students at the highest and lowest ends of the achievement spectrum, it may be the case that their instructional technologies require as much or more funding than those used in traditional classroom settings.

Second, no consensus has been reached at either the state or the national level regarding the appropriate amount of resources needed to

ensure an adequate or superior education in traditional classroom settings. It is as yet difficult to assert that a defensible relationship exists between specific allocations of resources and student outcomes. Our analyses showed that nonclassroom-based charter schools were in some cases held to a standard that many conventional public schools did not meet. These findings suggest that the state should step back and gain a more thorough and evidence-based perspective on the types of relationships it would like to promote throughout the system. More study is needed to determine the appropriate cost of educating students, particularly students of different types. It is therefore problematic to assume that a fixed percentage of the funding that flows to classroom-based students may be adequate to educate a nonclassroom-based student. Nonclassroom-based students may be better served by policies that encourage their schools to invest in innovative, high-quality instruction tailored to their needs than by policies that result in shrinking the resources available to them.

SB 740 has sent a strong and important message to nonclassroom-based schools that they must be careful regarding the ways in which they use resources or face strong sanctions. It is appropriate, however, to reshape the regulations to fit a newly acquired understanding of how these schools operate within the context of all public education and to serve the needs of students more effectively. Based on our findings, we recommend the following:

1. The state should continue to collect financial data from nonclassroom-based charter schools, but the process should be streamlined, simplified, and clarified to reduce the burden on schools, particularly small schools. The state should establish consistent guidelines for independent audits, and simplified, standardized accounting systems for small schools should be established in the near future to improve the ease and verification of reporting. Cross-referencing of other types of accounting reports and SB 740 forms should be clear, direct, and possibly automated.
2. The timing of the SB 740 funding determinations should be changed to occur earlier in the school year. Schools need greater certainty regarding funding decisions in order to allocate resources effectively.

3. The state should move away from a process that automatically cuts funding as a result of failure to meet a criterion threshold. Nonclassroom-based charter schools should be presumed to deserve full funding unless there are convincing signals that these schools should receive lesser amounts. A more appropriate mechanism would be to gather reasonable data across schools and to use these data in a deliberative, analytic process to determine which schools might need further oversight. In other words, the state should refine the set of indicators used in the SB 740 process to assess fiscal and overall performance and redefine them as signals that warrant investigation and possible audit rather than as criteria for implementing funding cuts.
4. It is beyond the bounds of this report to determine which indicators should be used. The state should consider the possibility of developing a set of benchmarks for nonclassroom-based charters that could be used to identify charters that are well outside the bounds of "normal" operation and might be deemed as needing further investigation. Benchmarks, such as the 80 percent instructional-spending threshold (amended by the new formula to include facility costs) or a statewide pupil-teacher ratio threshold, should be established with respect to these indicators. The ratio of 50 percent of revenues spent on certificated salaries should not be included as an indicator, however, given that it has not been effective as a means of increasing the numbers or percentages of certificated teachers in nonclassroom-based schools. Student characteristics—such as the proportion and type of students with special needs or the proportion of at-risk students—should be taken into account when assessing a school's performance against benchmarks. There may be many reasonable causes for deviations from benchmarks. High pupil-teacher ratios, for example, might be acceptable in a school that supplies a high-quality distance-learning program. Low scholastic performance might signal the need for a closer look at instruction in a school, for example, but since this may be due to a student body with large proportions of at-risk students, schools in this situation should be fully supported and encouraged to invest in effective learning strategies rather than sanctioned.

SB 740 has produced some positive outcomes. It has helped curb abuses of the public trust and has increased the fiscal accountability of nonclassroom-based schools. It has increased the proportion of revenues devoted to instruction in these schools. These positive outcomes have come at a cost, however. The administrative burden placed on schools and on the state authorities has been considerable, and the link between some of SB 740's requirements and instructional quality has been weak.

Despite the difficulties that these schools have encountered as a result of the SB 740 process, the demand for nonclassroom-based instruction has remained strong in the state. Given that this type of instruction serves the needs of certain populations of students who may not be as well served in traditional classroom-based settings, it is advisable to reform SB 740 with a cost-effective process that oversees quality while better reflecting the nature of instruction in nonclassroom-based schools.

APPENDIX A

SB 740 Funding Determination Forms

California Department of Education
School Fiscal Services Division
January 2002

SB 740 Funding Determination Form for Fiscal Year 2001-02

(Based on prior year data. See instructions for clarification.)

A. Charter Information

Charter School _____ Charter Number _____

Address _____

Contact Name/Title _____

Phone Number _____ E-mail _____

Percentage funding requested _____

Effective term of the charter _____

B. Funding Calculation

1. Public Revenues
   - 1a. Federal $_____
   - 1b. State _____
     - less: start-up, dissemination, implementation grants (_____)
   - 1c. Local: in-lieu property taxes _____
   - 1d. Total Public Revenues $_____

2. Expenditures
   - 2a. Salaries and Benefits, Certificated Employees $_____

3. Percentage Calculation (Line 2a divided by Line 1d) _____%

4. Provide the number of full-time equivalent employees in the charter school who possess a valid certificate, permit or other document equivalent to that which a teacher in other public schools would be required to hold from the Commission on Teacher Credentialing. _____

C. Additional Required Information

1. Does this charter school have any non-revocable contracts for management services, yes or no?
2. If yes, provide a listing of each non-revocable contract and the annualized amounts thereof.
3. Provide a description of the manner in which the charter school's governing board members are selected.
4. Provide a copy of the charter school's 2000-01 independent annual audit.
5. Provide a listing of entities that received $50,000 or more of the charter school's total expenditures, and the amount provided to each.
6. Provide the charter school's pupil-teacher ratio as calculated pursuant to California Code of Regulations, Title 5, Section 11704 and Education Code Section 51745.6.

California Department of Education
School Fiscal Services Division
January 2002

SB 740 Funding Determination Form for Fiscal Year 2001-02

(Based on prior year data. See instructions for clarification.)

D. Certification

I certify that:

1. The information provided is true and correct to the best of my ability and knowledge.
2. This charter school's nonclassroom-based instruction is conducted for and substantially dedicated to the instructional benefit of the school's students.
3. This charter school's governing board has adopted and implements conflict of interest policies.
4. All of the charter school's transactions, contracts, and agreements are in the best interest of the school and reflect a reasonable market rate for all goods, services, and considerations rendered for or supplied to the school.

Signature of Authorized Individual _____

Title of Authorized Individual _____

Date _____

California Department of Education
School Fiscal Services Division
January 2002

SB 740 Funding Determination Form for Fiscal Year 2001-02

(Based on prior year data. See instructions for clarification.)

E. Supplemental Financial Information

(Please refer to instructions to determine whether you must complete this form.)

A. Revenues and Other Financing Sources

1. Federal Revenue	$
2. State Revenue	$
3. Local Revenue	$
4. Other Financing Sources	$
5. Total Revenues and Other Sources (Lines A.1 through A.4)	$

B. Expenditures and Other Financing Uses

1. Instruction and Related Services	
1a. Salaries and Benefits:	
• Certificated	$
• Classified	$
1b. Books, Supplies, and Equipment	$
1c. Services and Other Operating Costs	$
1d. Subtotal (Lines B.1.a through B.1.c)	$
2. Operations and Facilities	
2a. Salaries and Benefits: Classified	$
2b. Books, Supplies, and Equipment	$
2c. Services and Other Operating Costs	$
2d. Facilities Acquisition and Construction	$
2e. Subtotal (Lines B.2.a through B.2.d)	$
2e(i). Amount of 2.a through 2.c for school sites: [$_____]	
2e(ii). Amount of 2.a through 2.c for admin. sites:[$_____]	
3. Administration and All Other Activities	
3a. Salaries and Benefits:	
• Certificated	$
• Classified	$
3b. Books, Supplies, and Equipment	$
3c. Services and Other Operating Costs	$
3d. Subtotal (Lines B.3.a through B.3.c)	$
3c(i).Supervisorial Oversight Fees included in 3.c:[$_____]	
4. Other Outgo and Other Financing Uses	$
5. Total Expenditures/Other Uses (Lines B.1.d, B.2.e, B.3.d, B.4)	$

6. Provide the number of full-time equivalent employees in the charter school who possess a valid certificate, permit or other document equivalent to that which a teacher in other public schools would be required to hold from the Commission on Teacher Credentialing, and whose position requires a credential. ----------

California Department of Education
School Fiscal Services Division
October 2002

SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification.)

I. Charter Information

Charter School _____ Charter Number _____

Address _____

Contact Name/Title _____

Phone Number _____ Fax Number _____

E-mail _____

Percentage funding requested _____

Number of years of request (no more than 5 years) _____

Date charter granted _____

Date charter terminates (prior to renewal)_____

II. Certification

I certify that:

1. The information provided is true and correct to the best of my ability and knowledge.
2. This charter school's nonclassroom-based instruction is conducted for and substantially dedicated to the instructional benefit of the school's students.
3. This charter school's governing board has adopted and implements conflict of interest policies.
4. All of the charter school's transactions, contracts, and agreements are in the best interest of the school and reflect a reasonable market rate for all goods, services, and considerations rendered for or supplied to the school.

Signature of Authorized Individual _____

Title of Authorized Individual _____

Date _____

California Department of Education
School Fiscal Services Division
October 2002

SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification.)

III. Financial Information

A. Resources Available for Expenditure

1. Revenues and Other Financing Sources	
1a. Federal Revenue	$
1a(i). Amount of start-up, implementation, and dissemination grants in 1a. [$_____]	
1b. State Revenue	$
1c. Local Revenue	$
1c(i). Amount of in-lieu property taxes in 1c. [$_____]	
1d. Other Financing Sources	$
1e. Subtotal (Lines A.1.a through A.1.d)	$
2. Ending Balance From Prior Fiscal Year	$
3. Total Resources Available for Expenditure (Lines A.1.e and A.2)	$

B. Expenditures and Other Financing Uses

1. Instruction and Related Services	
1a. Salaries and Benefits:	
• Certificated	$
• Classified	$
1b. Books, Supplies, and Equipment	$
1c. Services and Other Operating Costs	
• Contracts for Instructional Services	$
• Contracts for Instructional Support	$
• All Other Instruction and Related Services and Other Operating Costs	$
	$
1d. Subtotal (Lines B.1.a through B.1.c)	$
2. Operations and Facilities	
2a. Salaries and Benefits:	
• Certificated	$
• Classified	$
2b. Books, Supplies, and Equipment	$
2c. Services and Other Operating Costs	$
2d. Facilities Acquisition and Construction	$
2e. Subtotal (Lines B.2.a through B.2.d)	$
2e(i). Amount of 2.a through 2.c for classrooms and instruction-related space: [$_____]	
2e(ii). Amount of 2.a through 2.c for nonclassroom and noninstruction-related space: [$_____]	

California Department of Education
School Fiscal Services Division
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SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification.)

III. Financial Information (continued)

3. Administration and All Other Activities	
3a. Salaries and Benefits:	
• Certificated	$
• Classified	$
3b. Books, Supplies, and Equipment	$
3c. Services and Other Operating Costs	
• Contracts for Administrative Services	$
• Supervisorial Oversight Fee	$
• All Other Administration and Other Activities Services and Operating Costs	$
	$
3d. Subtotal (Lines B.3.a through B.3.c)	$
4. Other Outgo and Other Financing Uses	$
4a. Debt Service	$
4b. Transfers to District or County	$
4c. All Other Outgo	$
4d. Subtotal (Lines B.4.a through B.4.c)	$
5. Total Expenditures/Other Uses (Lines B.1.d, B.2.e, B.3.d, B.4.d)	$
C. Excess (Deficiency) of Revenues Over Expenditures	
1. Total Excess Revenues (Subtract Line B.5 from Line A.3)	$
1a. Reserve Required by Charter-authorizing Agency	$
1b. Reserve for Facilities Acquisition or Construction	$
1c. General Reserve/Designated for Economic Uncertainties	$
1d. Other Reserves	$

California Department of Education
School Fiscal Services Division
October 2002

SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification.)

IV. Additional Required Information

1. Provide the charter school's pupil-teacher ratio as calculated pursuant to *Education Code* Section 51745.6. Provide the pupil-teacher ratio of the largest unified school district in the county or counties in which the charter school operates, as required by California Code of Regulations, Title 5, Section 11704.
2. Provide a listing of entities that received $50,000 or more of the charter school's total expenditures reported in Section II, Lines B.1.c, B.2.c, and B.3.c, and the amount provided to each. Are each of the contract payments made by the charter school based on specific services rendered, clearly stating the fee per service rendered and invoiced accordingly? Are any of the contract payments based upon an amount per unit of average daily attendance or some other percentage of the charter school's revenues, enrollment, etc.? If so, which ones?
3. Who are the members comprising the charter school's governing board (i.e. how many parents, teachers, etc)? Describe how those members are selected. Does the charter school's governing board have adopted and implemented conflict of interest policies and procedures? Are any of the governing board members affiliated in any way with any of the entities reported as a response to question 2. If so, how?
4. Explain the reasons for the expenditures reported in Section III, Line B.4.b.
5. List the "Other Reserves" and the amount of each reported on Line C.1.d (if applicable).
6. What is the total square footage of the facilities occupied by the charter school? How much of that total is used for instruction and instruction-related purposes? What percentage of the charter school's nonclassroom-based pupils use the instructional and instructional-related space? How frequently is that space used by the charter school's nonclassroom-based pupils (i.e. how many hours per day, days per week, etc.)?
7. How many full-time equivalent employees at your school possess a valid teaching certificate, permit, or other document equivalent to that which a teacher in other public schools would be required to hold issued by the Commission on Teacher Credentialing?

California Department of Education
Charter Schools Office
September 2003

SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification. The form is not final until the SB 740 regulations are reviewed and approved by the Office of Administrative Law.)

I. Charter Information

Charter School _____ Charter Number _____

Address _____

Contact Name/Title _____

Phone Number _____ Fax Number _____

E-mail _____

Percentage funding requested _____

Number of years of request (no more than 5 years) _____

Date charter granted _____

Date charter terminates (prior to renewal)_____

II. Certification

I certify that:

1. The information provided is true and correct to the best of my ability and knowledge.
2. This charter school's nonclassroom-based instruction is conducted for and substantially dedicated to the instructional benefit of the school's students.
3. This charter school's governing board has adopted and implements conflict of interest policies.
4. All of the charter school's transactions, contracts, and agreements are in the best interest of the school and reflect a reasonable market rate for all goods, services, and considerations rendered for or supplied to the school.

Signature of Authorized Individual _____

Title of Authorized Individual _____

Date _____

California Department of Education
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SB 740 Funding Determination Form

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III. Financial Information

A. Resources Available for Expenditure

1. Revenues and Other Financing Sources	
1a. Federal Revenue	$
1a(i). Amount of start-up, implementation, and dissemination grants in 1a. [$_____]	
1b. State Revenue	$
1c. Local Revenue	$
1c(i). Amount of in-lieu property taxes in 1c. [$_____]	
1d. Other Financing Sources	$
1e. Subtotal (Lines A.1.a through A.1.d)	$
2. Ending Balance From Prior Fiscal Year	$
3. Total Resources Available for Expenditure (Lines A.1.e and A.2)	$

B. Expenditures and Other Financing Uses

1. Instruction and Related Services	
1a. Salaries and Benefits:	
• Certificated	$
• Classified	$
1b. Books, Supplies, and Equipment	$
1c. Services and Other Operating Costs	
• Contracts for Instructional Services	$
• Contracts for Instructional Support	$
• All Other Instruction and Related Services and Other Operating Costs	$
	$
1d. Subtotal (Lines B.1.a through B.1.c)	$
2. Operations and Facilities	
2a. Salaries and Benefits:	
• Certificated	$
• Classified	$
2b. Books, Supplies, and Equipment	$
2c. Services and Other Operating Costs	$
2d. Facilities Acquisition and Construction	$
2e. Subtotal (Lines B.2.a through B.2.d)	$
2e(i). Amount of 2.a through 2.c for classrooms and instruction-related space: [$_____]	
2e(ii). Amount of 2.a through 2.c for nonclassroom and noninstruction-related space: [$_____]	

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SB 740 Funding Determination Form

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III. Financial Information (continued)

3. Administration and All Other Activities	
3a. Salaries and Benefits:	
• Certificated	$
• Classified	$
3b. Books, Supplies, and Equipment	$
3c. Services and Other Operating Costs	
• Contracts for Administrative Services	$
• Supervisorial Oversight Fee	$
• All Other Administration and Other Activities Services and Operating Costs	$
	$
3d. Subtotal (Lines B.3.a through B.3.c)	$
4. Other Outgo and Other Financing Uses	$
4a. Debt Service	$
4b. Transfers to District or County	$
4c. All Other Outgo	$
4d. Subtotal (Lines B.4.a through B.4.c)	$
5. Total Expenditures/Other Uses (Lines B.1.d, B.2.e, B.3.d, B.4.d)	$
C. Excess (Deficiency) of Revenues Over Expenditures	
1. Total Excess Revenues (Subtract Line B.5 from Line A.3)	$
1a. Reserve Required by Charter-authorizing Agency	$
1b. Reserve for Facilities Acquisition or Construction	$
1c. General Reserve/Designated for Economic Uncertainties	$
1d. Other Reserves	$

California Department of Education
Charter Schools Office
September 2003

SB 740 Funding Determination Form

(Based on prior year data. See instructions for clarification. The form is not final until the SB 740 regulations are reviewed and approved by the Office of Administrative Law.)

IV. Additional Required Information

1. Provide the charter school's pupil-teacher ratio as calculated pursuant to *Education Code* Section 51745.6. Provide the pupil-teacher ratio of the largest unified school district in the county or counties in which the charter school operates, as required by California Code of Regulations, Title 5, Section 11704.
2. Provide a listing of entities that received $50,000 or more of the charter school's total expenditures reported in Section II, Lines B.1.c, B.2.c, and B.3.c, and the amount provided to each. Are each of the contract payments made by the charter school based on specific services rendered, clearly stating the fee per service rendered and invoiced accordingly? Are any of the contract payments based upon an amount per unit of average daily attendance or some other percentage of the charter school's revenues, enrollment, etc.? If so, which ones?
3. Who are the members comprising the charter school's governing board (i.e. how many parents, teachers, etc)? Describe how those members are selected. Does the charter school's governing board have adopted and implemented conflict of interest policies and procedures? Are any of the governing board members affiliated in any way with any of the entities reported as a response to question 2. If so, how?
4. Explain the reasons for the expenditures reported in Section III, Line B.4.b.
5. List the "Other Reserves" and the amount of each reported on Line C.1.d (if applicable).
6. What is the total square footage of the facilities occupied by the charter school? How much of that total is used for instruction and instruction-related purposes? What percentage of the charter school's nonclassroom-based pupils use the instructional and instructional-related space? How frequently is that space used by the charter school's nonclassroom-based pupils (i.e. how many hours per day, days per week, etc.)?
7. How many full-time equivalent employees at your school possess a valid teaching certificate, permit, or other document equivalent to that which a teacher in other public schools would be required to hold issued by the Commission on Teacher Credentialing?
8. Are you reporting all of the 2002-03 deferred revenue on these forms, even though it was not actually received in 2002-03? If not, how much will you report on next year's forms?

APPENDIX B

Description of Data Collection

The data-collection strategy for both the principal and teacher surveys consisted of express mailings of the questionnaire package and telephone prompting.

Principal/Director Sample

The sample file included the school name, respondent name and title, school address, and school telephone number for 142 nonclassroom-based charter schools in California. These were all the nonclassroom-based schools that had participated in the SB 740 process at some point in time. Some of these schools were no longer operating, but we were not able to determine this at the outset, so certain schools were found to be ineligible during the fielding process. Although the sample file included address information, where needed, RAND's Survey Research Group (SRG) used Internet lookup and telephone calls to confirm mailing addresses and active status of schools that could not be contacted at the address provided on the original sample file.

Initial packages were sent overnight delivery by Federal Express to a total of 142 respondents at the sampled schools. The contact persons had titles such as administrator, business manager, principal, director, head of schools, chief financial officer, financial director, and superintendent. The mailing contained a cover letter addressed to the contact name provided by the project, the questionnaire, and a postage-paid return envelope. The letter summarized the purpose of the study, included the project's toll-free number, provided a brief description of

RAND and how respondents were chosen, and described the confidentiality protection being afforded by RAND. The letter also provided information on the upcoming teacher survey and a request that respondents send a complete teacher roster from their school for RAND to use to randomly select the sample for the teacher survey. Respondents were promised a payment of $50 for completing the questionnaire and returning a roster of teacher names.

Several schools were identified as "multischool" cases. Although listed as different schools, these schools shared a similar contact person. The questionnaires for these schools were sent together in one package to the contact person identified by the project.

The initial questionnaire packages (142 cases) were mailed in mid-November 2003 (November 17–19). There were two rounds of follow-up mailings to sample individuals: 65 in mid-December 2003 (December 16), and 35 in late January 2004 (January 28–29). Excluded from each round of the follow-up mailings were individuals who had already completed, or promised to complete, the survey; were ineligible; had refused; were otherwise finalized; were currently unlocatable; or had other problems. All final nonresponders received a minimum of three mailings. Introductory letters were slightly modified for the follow-up mailings to convey the same information but with a slightly more urgent tone.

When cases were returned undeliverable, an attempt was made to contact the school for a better mailing address. In addition, these school names were checked against the CDE Web site (http://www.cde.ca.gov/) to confirm address information and to determine if the schools were still active.

After each mailing, interviewers conducted telephone prompting of nonresponders. Phone prompting was also done on those cases for which we had a completed survey, but no roster of teachers was returned. Respondents were asked to fax teacher rosters directly to RAND. Completed surveys continued to be logged through March 2004. Data collection ended officially on March 31, 2004. Excluding ineligible cases, 76.2 percent of respondents completed the questionnaire.

Table B.1
Principal/Director Survey Response

Total sample	142
Ineligibles	20
Total eligible sample	122
Eligible sample outcomes	
Completed surveys	93
Final refusal	16
Field period ended—no final outcome	13
Response rate (completes/eligible sample)	76.2%

A total of 20 cases were determined to be ineligible. Respondents were determined to be ineligible if they met one of the following criteria:

1. The charter school was closed (10 cases).
2. The charter was revoked (4 cases).
3. The school was no longer a charter school (1 case).
4. The school provided no nonclassroom-based instruction (4 cases).
5. The SB 740 process did not apply to the school (1 case).

Of the 142 sample cases, 16 cases were outright refusals. The reasons for refusal included lack of time, lack of interest, too busy, unhappiness with SB 740, decisions made at the administrative level not to participate in the study, and indication that the school is very small and does not participate in SB 740. Although only 16 cases were outright refusals, other nonresponding respondents were likely passive refusals and simply did not return the questionnaire or respond to prompting efforts.

Teacher Sample

As part of the principal/director survey, respondents were asked to send a complete teacher roster from their school for RAND to use to ran-

domly select the sample for the teacher survey. A total of 91 schools returned usable teacher rosters to RAND. For 15 additional schools that did not return teacher rosters, names were collected from a list provided by Market Data Retrieval.

Initial packages were sent overnight delivery by Federal Express to a total of 350 target respondents. The mailing contained a cover letter, the questionnaire, and a postage-paid return envelope. The letter summarized the purpose of the study, included the project's toll-free number, provided a brief description of RAND and how respondents were chosen, and described the confidentiality protection being afforded by RAND. The letter also provided information on the eligibility requirements for teachers to participate in the survey and requested that respondents who did not have the title of teacher check "No" on Question A on the front cover of the survey and return the blank survey. In return, ineligible teachers were promised a check for $5 in appreciation for their compliance. Eligible respondents were promised a payment of $50 for completing the questionnaire.

The initial questionnaire packages (350 cases) were mailed to teachers at their school address in late March 2004 (March 31–April 1). When cases were returned as undeliverable, an attempt was made to contact the school for a better mailing address.

After the initial mailing, interviewers conducted telephone prompting of nonresponders. However, we learned that for many schools, teachers worked off-site or from their homes and could not be reached through the school number. Many of these schools forwarded the packages to the teachers or held the packages for pickup. In some of these cases, schools were willing to provide us with alternative contact information for the teachers. For some others, schools would not provide alternate contact information, but were able to pass on the project's toll-free phone number through the school for the teachers to contact us directly. In addition, these teacher names were checked against the school Web sites to attempt to obtain an email address for the teacher. Email prompts were sent to nonresponding teachers for whom an email address was obtained. As a result of various prompting efforts, some teachers requested that questionnaire packages be sent directly to their home addresses.

There were two rounds of follow-up mailings to sample individuals: 136 in mid-May (May 10–26) and 54 in late June (June 22). Excluded from each round of the follow-up mailings were individuals who had already completed, or promised to complete, the survey; were ineligible; had refused; were otherwise finalized; were currently unlocatable; or had other problems. All final nonresponders received a minimum of two mailings. As with the principal/director survey, introductory letters were slightly modified for the follow-up mailings to convey the same information but with a slightly more urgent tone. Interviewers conducted telephone prompting of nonresponders after the follow-up mailings. Completes continued to be logged through August 2004. Data collection ended officially on August 4, 2004. Excluding ineligible cases, 69.8 percent of respondents completed the questionnaire.

A total of 25 cases were determined to be ineligible. Respondents were determined to be ineligible if they met one of the following criteria:

1. The respondent was not or no longer a teacher in a public charter school (Question A of survey: "For the purposes of this study, counselors, teacher's aides, parent instructors, and other types of instructors without credentials, certificates, or emergency permits are not eligible to complete the survey") (7 cases).
2. The respondent was not or no longer a teacher at the charter (15 cases).
3. The respondent was an administrator (3 cases).

Table B.2
Teacher Survey Response

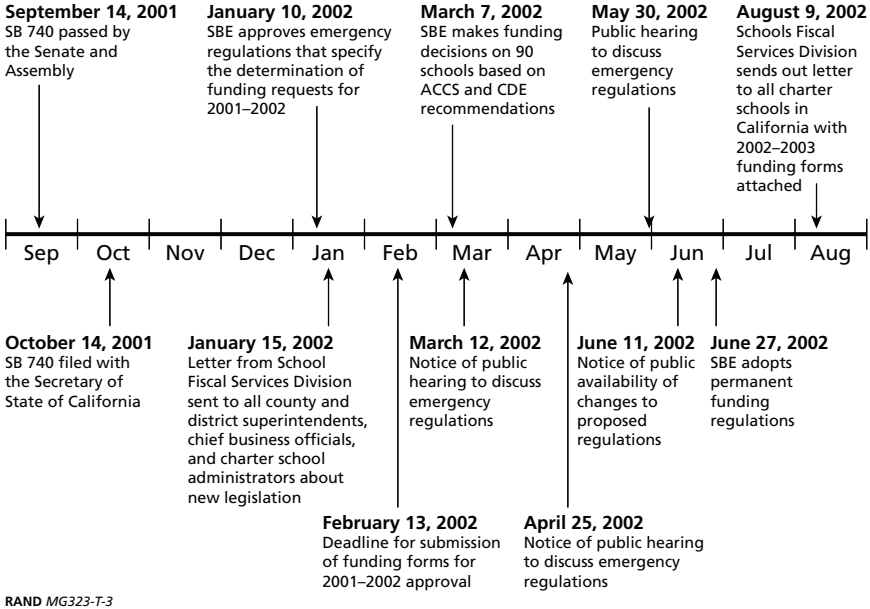
Total sample	350
Ineligibles	25
Total eligible sample	325
Eligible sample outcomes	
Completed surveys	227
Final refusal	13
Field period ended—no final outcome	85
Response rate (completes/eligible sample)	69.8%

Of the 350 sample cases, 13 cases were outright refusals. The reasons for refusal included too busy, concerned about risks of participation, felt surveys were a waste of money, felt questions were invalid, gatekeeper refusals, and one school who refused on behalf of all its teachers. Although only 13 cases were outright refusals, other nonresponding respondents were likely passive refusals and simply did not return the questionnaire or respond to prompting efforts.

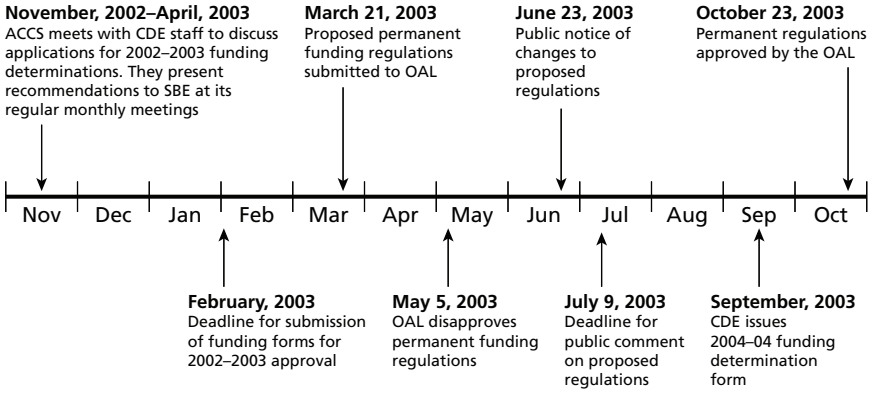
APPENDIX C.

Time Line of the Implementation of SB 740

Figure C.1
Time Line of the Regulation Development Process and the Initial Funding Determinations Made by the SBE



RAND *MG323-T-3*



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