Political and Financial Lessons from South Carolina

Forty-two states and the District of Columbia have charter school laws today, and the nation's first such law celebrated its 20th anniversary in Minnesota this year. Charters, publicly funded schools formed by parents and community leaders, are expected to provide alternatives to traditional public schools. Yet despite the proliferation of charter laws and new schools around the country, charters and their authorizers still spend their first several years in a fight for survival. Nowhere is this more true than in South Carolina, which was among the first states to adopt a charter statute.

Founders of charter schools sign contracts (or "charters") with an authorizer, such as a school district or higher-education institution, that stipulate the rules and regulations from which charters are exempted in exchange for accountability for results. In other words, a charter school can be closed if it does not meet certain reporting requirements and student achievement goals.

For years, South Carolina charters struggled mightily after their launch. Far fewer charters are now in operation in South Carolina than in some of the other states that were early adopters (South Carolina has 44, while California, Arizona, and Florida each has hundreds of charters), and charter students make up only 2 percent of the state's public-school enrollment. Undoubtedly, some of these differences can be attributed to geography and population, but a recurring set of obstacles has also plagued the movement in South Carolina since its inception.

In 1996, then governor David Beasley signed South Carolina's charter law, but few schools had opened by the turn of the century. This is surprising, considering the state's record of low student achievement. According to commonly accepted performance indicators, South Carolina's public schools are among the nation's worst. Persistently low graduation rates, dismal SAT results, and low NAEP (National Assessment of Educational Progress) scores, especially in

By JONATHAN BUTCHER and JOEL MEDLEY

reading, have long been the norm. In a historically red state with low-performing schools, a free-market education reform such as charters should be in demand and find strong support from lawmakers. What happened?

Allison Reaves
is principal at South Carolina Connections Academy.

Fits and Starts

While South Carolina did indeed pass a charter school law in 1996, a combination of public-school establishment resistance and legislative reticence delayed the law's maturation. As originally enacted, the law only allowed local school districts to authorize charters. When the first decade of South Carolina's charter history concluded in 2006, there was little to show. Twenty-nine charter schools were operating, and few of these had a track record of success. Some 14 others had opened and closed. The average life span of the closed schools was 2.7 years, with most not even completing a second year. As is the case nationally, many of the closures were the result of financial problems or poor planning at the outset. While the state board of education addressed the planning concerns through regulation, other policy issues emerged, as certain districts developed a reputation for stonewalling reform efforts. For example, Greenville and Charleston, home districts for two early charter success stories, Greenville Tech and James Island, respectively, are the two largest districts in South Carolina, and each developed an adversarial stance toward charters.

The prolonged period of fits and starts forced charter advocates and their allies in the statehouse to seek a separate peace with their opponents in well-entrenched teacher, superintendent, and school-board associations. In responding, legislators created an alternative authorizer, the South Carolina Public Charter School District (SCPCSD, here CSD), with a plan to commence operations in 2008 under the leadership of an appointed board representing the governor's office, House and Senate leadership, and various state associations. The new authorizing district proposed to relieve pressure on local districts as the only avenue for a charter. This, plus the authorizing district's spartan funding provision, helped quell opposition—for a time.

Allison Reaves, principal at South Carolina Connections Academy, a virtual school and one of the first the CSD authorized, was surprised that so little effort had been made to prepare the public system for the new district. "I realized [charters] were still such a novel idea in South Carolina. Local districts have had little to no education on the charter movement," she says.

With the creation of the CSD, charters could be authorized to operate anywhere in the state, under the auspices of an agency that had no responsibility for traditional public schools. This new state agency/school district hybrid would be a logical alternative for charter hopefuls, especially those in local districts with an anticharter reputation.

The CSD opened in 2008 with five schools, including Connections Academy and two other virtual charter schools, the first of their kind in the state. By the end of the 2008–09 school year, though, one school's charter had been revoked, two others had asked for loans to make payroll, the district office was operating with barely enough on the balance sheet to make it month to month, and the hybrid administrative concept had been abandoned in favor of a more traditional district model. Further complicating matters, leadership changed, as the inaugural superintendent, Tim Daniels, and board chair, Terrye Seckinger, were replaced at the end of the year. What began as a hopeful new charter authorizer for South Carolina teetered on the brink of oblivion after only one year.

> WITH THE CREATION OF THE CSD, CHARTERS COULD BE AUTHORIZED TO OPERATE ANYWHERE IN THE STATE.

Money Problems

CSD schools immediately found themselves forced to defend their very existence, a common position for charters. Nationally, charters embrace this challenge by vowing to do more with less, but there is a distinct difference between whether a school can stock an additional computer lab or barely pay the electric bill. From the beginning, the South Carolina Charter School Act provided CSD schools with little more than the Base Student Cost (BSE), which varies from year to year depending on the state budget. The most significant source of funds for South

Carolina's traditional public schools—as well as for charters authorized by a local district—is the municipality in which the school is located. CSD schools do not have a local tax base and thus must operate without these funds. "The funding part was totally misleading—there was no way. Anybody with any understanding of finance and schools would realize that the bill created a situation that was not going to be long term," says current CSD superintendent Wayne Brazell. Principal Reaves says the charter management company behind her school knew the difficulties it would face in South Carolina, but pressed on. "Connections realized they were taking a risk," she says, "but they also knew there was a need for us in the state."

In 2008–09, the BSE was $2,476 per student, while the average per-pupil expenditure for traditional public schools in South Carolina totaled $9,162. Some other state funding was available to CSD schools, and they relied substantially on Title I dollars in the district's first year. But even when federal Title I funding was added to the mix, the CSD per-pupil average was below $4,000, less than half the state average for traditional schools. And this figure varied according to grade level, as high school students and disabled students are weighted more heavily by the state finance office.

"It [the charter school allotment] was certainly inadequate," says current CSD board chair Don McLaurin, an entrepreneur whose private-sector experience enabled him to recognize immediately the CSD's precarious financial situation. McLaurin joined the board halfway through the 2008–09 school year and has already been voted chairman twice. "It just wasn't enough money to run a school. I think we can do things at a more reasonable price than traditional public schools, but the mechanism that was in place in the beginning didn't allow for the realities of the world."

Understanding the policy shortcomings in CSD's creation, legislators added a $700 per-student proviso to the 2009–10 state budget to aid the district. But the proviso, Title I funding, and federal IDEA (Individuals with Disabilities Education Act) funding failed to offset worsening financial conditions in 2009–10. The $700 proviso survived reauthorization in spring 2010 and was available to the district for the 2010–11 school year, but its benefit evaporated when BSE was cut to $1,757 per pupil. Statewide, general-fund revenue collections—for all state services, including education—dropped

*Don McLaurin
is the chair of the CSD board.*

Superintendent of the CSD, Wayne Brazell, now oversees 13 schools that serve more than 10,000 students.

Rep. Phil Owens is chair of the House Education and Public Works Committee.

by nearly 25 percent between 2007 and 2010. The state faced a budget shortfall of $560.9 million in 2010–11, projected to reach $1.4 billion in 2012–13 unless spending was cut. In July 2010, mid-year cuts slashed the BSE even further, to $1,630. Superintendent Brazell knew the proviso could only be considered a short-term solution. "My thoughts were that this was done just to get our foot in the door and other funding would become available later," he says.

Having built annual budgets on significantly higher per-pupil allotments than they were receiving, CSD schools struggled to survive, and the threat of closure loomed. Compounding the problem, CSD schools experienced significant student turnover in their first two years, making enrollment unstable. "The funding level was so low and the opposition from so many traditional public-school groups was so fierce that many potential parents took a 'wait and see' stance. The growth in the district was mainly in the virtual schools and that student population was very transient," says Brazell.

In an effort to save newly opened charter schools, the CSD extended loans to two of its five schools in 2008, but only one of the loans was repaid. This caused consternation among the authorizing district's board members, especially as new requests for loans came in, and led to a swift reversal of district policy. "We violated what many of us thought we should have been doing as an authorizer, but we had to either help the schools or watch them all close," says Brazell. With the damage done, the district and its schools were convinced that a funding scheme relying on

BSE and Title I funding was untenable. For the next fiscal year (2009–10) the CSD aggressively cut costs, trimming office accounting fees and downgrading budget lines set aside for a legal retainer. As the district rebuilt its depleted reserves, schools again asked for short-term loans. Having learned a hard lesson, the district helped schools make payroll by advancing funds equal in amount to dollars due from the state. When the state funds arrived (typically at the end of the month), the district simply deducted monies already provided to the schools.

These actions were difficult for those board members with a background in education to come to grips with, says board chair McLaurin. But just as a start-up business has to be creative, he knew the new district had to be so as well. "The district either had to be flexible or not survive," he says. "It was more difficult for educators than entrepreneurs to understand this—and that's not a slight to educators, it's just a different perspective."

These unorthodox measures kept the district afloat while legislators moved to revise the funding scheme. Rep. Phil Owens of Pickens County, chair of the House Education and Public Works Committee, introduced a bill in 2010 aimed at establishing a more sustainable funding scheme for the district, but opposition from members of the education establishment stalled the legislation in committee. McLaurin says, "That we did become one of the largest districts in the state [after two years] was proof-of-concept to the legislature." District enrollment more than doubled from 2,464 students in 2008–09 to 6,086 in 2009–10. "We proved that people want this; they signed up in droves, and that put a lot of pressure on the legislature to find more money for us," he says.

Nevertheless, as the 2010 session ended, the CSD anticipated another year of uncertainty and prepared for more legislative battles in 2011.

What began as a hopeful new charter authorizer for South Carolina teetered on the brink of oblivion after only one year.

The Schizophrenic District

From the outset, the CSD encountered another obstacle to progress, further exposing its policy-created vulnerability: it served as both authorizer and support office. Since charters struggled for more than a decade prior to the creation of the CSD, the district was not going to win public or

legislative support by allowing new schools to evaporate into the ether due to lack of funds or ignorance of procedures, such as how to report accurate enrollment counts. CSD school officials labored to navigate the state reporting system, as the state shifted software providers between 2009 and 2011. At the same time, the CSD needed to uphold its mission of accountability to create, sustain, and retain high-quality charter schools.

"There is a lot of confusion, and there are a lot of roles and responsibilities [for the CSD]," says Reaves. "The district has to change personalities based on what it encounters in any given day or even any given hour." Simple operational procedures, which existing traditional schools had mastered, were an enigma to CSD charters. How do they order textbooks? How can they order diplomas? "Student attendance and discipline questions were very common those first two years," says Brazell, a 30-year veteran of public-school leadership in South Carolina. "I answered the same type of questions as when I was a superintendent in a traditional district." The CSD desperately wanted to prove that charters could succeed under its auspices, so the district stretched beyond its authorizing role to help the new schools navigate the system.

In fall 2009, the CSD added three new schools, including a virtual high school that enrolled more than 1,000 students, and these schools needed the same guidance and services as the schools that had opened one year earlier. Two challenges faced the district office as it tried to distinguish itself as a charter authorizer and not just a traditional school district.

First, the CSD struggled to implement a comprehensive accountability scheme based on student performance on state assessments. The state department embargoes test scores for months after receipt, so the public does not have access to the results. District staff, parents, and teachers knew test scores, but schoolwide and districtwide averages could not be reported to the CSD board or its school boards because that would become public information. Without these data, school leaders did not have the current achievement information necessary to isolate areas of need and propose interventions. For charter schools, accountability for results is critical. By the time results were made public, the
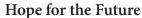
next school year had already begun.

Second, CSD staff continued to provide guidance to existing schools while simultaneously helping to launch new ones. With high staff turnover at existing schools (two of the five principals were replaced between the first and second year, not to mention numerous changes among assistant principals and teachers) and the addition of new schools, school officials needed training in critical procedures. Student information-system management and reports to the state, along with the means for implementing new curricula and distinguishing which state policies charters were exempt from and which they were not, were a mystery to many.

All of these issues converged as schools performed their primary purpose of educating students, frustrating progress on both fronts (operations and accountability). The financial circus kept school budgets in flux, making it difficult to prepare for additional student services, hire teachers, and develop strategic plans.

To make matters worse, the S. C. Charter School Act requires board elections at each charter school annually, resulting in the loss of institutional knowledge every year. "Folks operating charter schools were very naive for the most part, simply because they had never done it before," says Brazell. Sometimes these new boards wanted to change course and replaced the principal, even after a school's first year. In other cases, a principal was hired and then replaced before a new school ever opened its doors. At every turn, the CSD was forced to use hasty, temporary measures to help resolve problems that could be traced to the state policies in place. What resulted was a haphazard set of practices, inconsistently applied, with plenty of doubt to go around. "All of this put the district in a really compromising position," says Connections Academy principal Reaves.

> The financial circus kept school budgets in flux, making it difficult to prepare for additional student services, hire teachers, and develop strategic plans.

Hope for the Future

Fortunately, the story does not end there. Today, the CSD oversees 13 schools that serve more than 10,000 students. In 2010–11, Superintendent Brazell finished his second school year with the district and has filled key staff positions with knowledgeable personnel, many with a history at the South Carolina Department of Education. CSD staff experience has proved invaluable to the new charter operators.

"Staff with experience in operations has helped to get a school's questions answered quickly, and it's allowed us to start talking about what a good district should be," says Brazell. Only one charter has been revoked, so despite a roller coaster of financial adjustments and procedural changes, the schools are stabilizing. In addition, the 2011–12 state budget included a funding increase for CSD schools. Virtual schools received an additional $1,750 per student, while brick-and-mortar charters received an additional $3,250. Although the amount depends on a student's category (grade level, special needs, etc.), the average CSD student is funded at approximately $5,000, still much lower than the average traditional school student but better than prior levels.

What took South Carolina's charter movement so long? First, advocacy from key leadership positions had been missing. Brazell had no choice but to handle operational and administrative duties while also explaining the charter concept to legislators in the statehouse. The 2010 elections propelled a strong charter supporter into the state superintendent's office. Dr. Mick Zais expressed support for charters in his campaign and made the 2011 charter legislation one of his first priorities. "That was a game changer," acknowledged board chair McLaurin. "I've got to believe that we are creating a change in the culture, and he bought into that. He's genuinely a believer in competition. Our whole relationship with the state department [of education] has changed."

Second, authorizers with varied commitments to the reform effort slowed the growth of new schools. The statewide authorizer allowed a set of schools located in different areas around the state to coalesce as a group with a common outlook on education reform. All agreed that charters can succeed only if the initial political and administrative obstacles are overcome.

South Carolina's statewide authorizer is less schizophrenic these days, though the concern coming to the fore is greater focus on support and administration than was intended. Brazell is looking to change that. With less uncertainty as to whether the schools will actually survive, the CSD can concentrate more on school quality and achievement. "The district board is freeing

Dr. Mark Zais,
a strong charter supporter, was propelled into the state superintendent's office in 2010.

our office to concentrate on oversight and accountability instead of authorization," says Brazell, which helps to narrow the focus for district staff. "I've told the schools that the expectations are higher now, and we are going to be focusing efforts on compliance. We've come a long way."
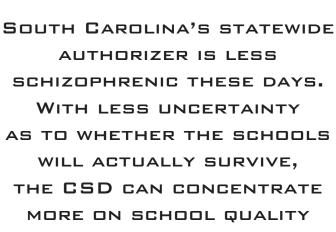
"In any start-up that I've ever seen succeed, five years out from the start the business is never exactly like the business plan said it would be," says McLaurin. "You've got this view of how the world is, but then you get out there and start interacting with the world and things change. I think that process was inevitable."

Should these problems be solved, the fact remains that so long as the CSD continues to authorize schools, the district will have to train new school leadership and staff on compliance with state standards, while also holding all schools accountable for performance. In August 2011, the CSD approved seven charter-school applicants to open in the 2012–13 school year. Perhaps the strong leadership in the state and district superintendents' offices, along with more experience among district and school staff, will result in more effective operations and better student outcomes in the future.

Jonathan Butcher is education director for the Goldwater Institute and served as the CSD's director of accountability from 2009 to April 2011. Joel Medley is the director of the North Carolina Office of Charter Schools and was the director of the Charter School Office at the South Carolina Department of Education from 2008 to 2010.

South Carolina's statewide authorizer is less schizophrenic these days. With less uncertainty as to whether the schools will actually survive, the CSD can concentrate more on school quality and achievement.