Welcome

High Impact Financial Analysis and presenting sponsor The Community Development Trust are pleased to present the third issue of State Scans: Charter School Markets across the U.S. This report is part of a four-issue volume that focuses on the charter school markets in select states:

- Tennessee (Issue 1, Jan. 2018)
- California (Issue 2, April 2018)
- **New Jersey (Issue 3, July 2018)**

This issue provides a concise and user-friendly compilation of information on New Jersey’s charter school market. We hope that industry stakeholders including authorizers, operators, lenders, and grant-makers will find in this issue the context they need to support charter school projects in New Jersey.
Disclaimer

The information and material presented in this report have been assembled for informational purposes only and are not to be used as the basis of an investment or credit decision. The authors of this report do not warrant the accuracy of information contained in this report but have made best efforts to ensure that the information is reliable as of its publication date of July 2018. Laws, regulations, and policies affecting charter schools may change at any time. Users of this report should conduct an independent verification of the matters referenced in this document before making any business decisions.

Resources

The information contained in this report was collected from an array of publicly available resources. We direct you to the following online resources to further your research:

- New Jersey Charter Schools Association
  - www.njcharters.org
- New Jersey Legislature
  - http://www.njleg.state.nj.us
- State of New Jersey Department of Education
  - www.nj.gov/education
- National Association of Charter School Authorizers
  - www.qualitycharters.org
- National Alliance for Charter Schools
  - www.publiccharters.org
- Educational Commission of the States
  - www.ecs.org

Presenting Sponsor

The Community Development Trust (www.cdt.biz) is a national provider of long-term, first-mortgage financing for charter school facilities. CDT provides loans for the acquisition and refinancing of existing facilities and forward commitments to purchase loans on new, to-be-built facilities upon construction completion. We look forward to expanding our portfolio to serve states, such as New Jersey, with sensible charter school regulatory frameworks and improving educational outcomes. For more information, contact Shelly Cleary at (212) 271-5085 or sclearly@cdt.biz.

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High Impact Financial Analysis (www.highimpactanalysis.com) helps lenders and investors build and maintain high-performing community development portfolios. High Impact’s underwriting, loan review, and consulting services are trusted by over 30 institutions financing charter schools, early care, housing, and other community development projects across the U.S. For more information, contact Peter Schaeffing at (518) 599-0482 or pschaeffing@highimpactanalysis.com.
Charter School Formation

New Jersey has only one authorizer:

- The New Jersey Department of Education (NJDOE) is the sole charter authorizer in the state.
  - The local school board and state superintendent review applications, but the Commissioner of Education (the Commissioner), appointed by the Governor, has the final authority in the approval, opening, monitoring and renewal of charters in New Jersey.
  - Charter school applications are submitted to the Commissioner and local school board of the district in which the school will be located.
  - For school boards under state intervention, charter applications are submitted to the state district superintendent. Camden is the only district currently under state control. State control over Jersey City, Paterson and Newark ended recently.

The Commissioner initially approves a charter for four years and may renew a charter for a period of five years thereafter. During the initial approval process, the NJDOE conducts an on-site preparedness visit that includes review of the program, facility and fiscal documentation and interviews with members of the Board of Trustees and staff of the proposed charter school to assess organizational leadership and capacity.

Upon receipt of a renewal application, the NJDOE conducts a site visit and structured interviews with the school’s Board of Trustees, administrators, teachers and other school representatives. During the renewal process, the Commissioner also evaluates state assessment results, annual reports, the renewal application, monitoring reports, public comments, financial reports and other relevant information.

Charters may be started in the following ways:

- A charter school may be established by teaching staff members, parents with children attending the schools of the local district, or a combination of teaching staff and parents.
- A charter school may also be established by an institution of higher education or a private entity located within the state in conjunction with teaching staff and parents of children attending the schools of the district.
- If the charter school is established by a private entity, representatives of the private entity cannot constitute a majority of the trustees of the school, and the charter will specify the extent to which the private entity may be involved in the operation of the school.
- While the NJDOE does not indicate preference, charter schools in urban areas with the participation of higher education institutions are encouraged. Nevertheless, these types of schools are rare.
- Conversion Schools:
  - New Jersey allows existing public schools to convert to charter schools.
  - 51% of the teaching staff and 51% of the parents must sign a petition in support.
  - A higher-performing nonpublic school in a failing district may also apply to convert, although the school name, activities, instruction, and other school characteristics may not promote religious views.
- Prospective charter schools are first given phase one approval, and then, following a planning year, are given their final charter if they are judged ready to open and operate in compliance with the charter.
In recent years, approvals have been rare. In FY18, only two new charter schools were granted phase one approval. For the FY17-18 academic year, only five of 22 schools with phase one approval were granted final charters.

Renaissance Schools
Renaissance schools are hybrid schools created through a partnership between the local board of education and a charter school operator. They are technically traditional public schools rather than charter schools, though they are run by charter management organizations. These schools were created by the Urban Hope Act (the Act), which was signed into law in January 2012. The law sought to introduce a new kind of school to bring about substantial improvement in low-performing urban areas of New Jersey where at least 40% of students scored partially proficient in Language Arts and Math in the 2009-10 school year.

Renaissance schools differ from charter schools in the following ways:
• The Act requires that districts fund renaissance schools at 95% of their own per pupil rate, rather than the 90% statutorily required for charter schools.
• Renaissance schools operate under an initial 10-year contract, followed by five-year automatic renewals.
• Students living in a catchment area surrounding a renaissance school are automatically enrolled in the school but may opt out.
• Teachers at renaissance schools are granted a five-year grace period to comply with a New Jersey law requiring public school teachers to live in New Jersey.
• Renaissance schools are required to begin operations in newly built or substantially renovated school facilities. Charter schools have no such requirement.
• Operators of renaissance schools must have a pre-existing track record of success to be awarded a renaissance school contract. The charter school law allows for start-up organizations to obtain charters.
• Renaissance schools are required to pay for all out-of-district placements for students they are unable to serve (such as in the case of extreme emotional disorder or other intensive individual need). Charter schools pay only for placements in private institutions, whereas the sending districts pay for placements in public institutions.

Local districts must approve renaissance schools to begin operations, whereas charter schools only need approval from the state. Renaissance schools currently operate only in Camden. These schools are excluded from the analysis presented in the remainder of the report.

Policy
• The Charter School Program Act of 1995 established New Jersey’s charter school program.
• Charter schools are subject to the Fiscal Accountability, Efficiency, and Budgeting Procedures as described in New Jersey Administrative Code, Charter Schools, (N.J.A.C. 6A:23A).

NJ S-2 Bill (Modification to the School Funding Reform Act of 2008)
• NJ Senate President Stephen Sweeney introduced a bill at the end of May 2018 to modify the state’s school funding law, with the intention of allowing the school aid formula to realize its goal of providing full and fair funding for all New Jersey school districts. The bill was signed into law by Governor Phil Murphy in July 2018.
• The bill makes two modifications to the School Funding Reform Act of 2008 (SFRA) to eliminate the growth cap that restricted increases in state aid regardless of enrollment.
growth and phase out adjustment aid over seven years. The law is intended to right size state aid to current school district enrollments. Observers generally believe that charter schools will benefit from the bill, though the impact will vary based on the charter school’s primary sending district.

Statewide Updates

- Governor Murphy, a Democrat, took office in January 2018 and has generally indicated a desire to slow or pause charter school growth in New Jersey.
- In March 2018, Governor Phil Murphy stated he was considering changes to the state’s charter school law and potentially slowing the overall growth of charter schools.
- Within the next year, it is highly likely that the Charter School Act will be reviewed, which may result to changes in the information presented in this report.

City Updates

Newark

- Mayor Ras Baraka wants to slow the rapid growth of charters in the city and has been a proponent of a moratorium on approval of any additional charters until the sector’s overall impact on traditional schools is assessed.
- State-appointed Superintendent Christopher Cerf resigned in February 2018 and has been replaced by Roger Léon. This is the first time in 22 years that the Newark School Board selected its own superintendent.
- The district adopted a new system called “Newark Enrolls” that allows families to apply to any public school in the city (traditional, magnet or charter) using a single online tool. The elected school board, which regained authority over the district this year, will have the option to keep the current system, modify it, or remove it.

Camden

- Paymon Rouhanifard resigned as superintendent in April 2018 and has been replaced by interim leader Katrina McCombs. Ms. McCombs is a Camden native and Camden High School Graduate. Prior to her role as interim leader, she served as Deputy Superintendent under Mr. Rouhanifard, and was the state appointee’s preferred choice to take over Mr. Rouhanifard’s position upon resignation.

Jersey City

- A companion law to the S-2 bill discussed above allows Jersey City to collect an up to 1% payroll tax on Jersey City businesses. The bill was designed to decrease the impact of the phase-out of reduction aid on the Jersey City School District’s budget, as the district stands to lose $175 million of funding by the end of the seven-year phase out.
Finances

Basic Funding (N.J. Statutes 18A:36A-12)
- Charter schools receive 90% of per-pupil funds received by students’ sending districts.
- Charter schools also receive the federal and state categorical program funds attributed to the student.
- For students not included in the district’s projected resident enrollment for the school year, the state pays 100% of per pupil funding for the first year.

Facilities (N.J. Statutes 34:1b-1; N.J. Statutes 55:19-74)
- The state of New Jersey does not provide any direct funding for charter school facilities. According to the New Jersey Charter Schools Association, for the 2017-18 school year, on average, New Jersey charter schools spent $1,418 per student from designated per-pupil funding/operating revenue on facilities costs.
- The New Jersey Economic Development Authority and the New Jersey Redevelopment Authority act as conduit for tax-exempt bond issuances for charter schools.

Other Notes on Finances
- In FY18, 16 New Jersey charter schools (18%) have collective bargaining agreements with the New Jersey Education Association or the American Federation of Teachers.
- Charter schools may not carry unsecured debt past their fiscal year-end (June 30). For that reason, operational lines of credit must either be secured or paid down to a zero balance by year-end.
- Lenders financing charter school facilities in New Jersey often require the facility to be owned by a ‘Friends of’ entity, which is a nonprofit formed to support the charter school, rather than by the school directly. This is attributable in part to a portion of the charter school law that indicates that a closed charter school’s assets revert to the state, and therefore may not be available to secured lenders. In practice, lenders have successfully foreclosed on real estate owned by closed charter schools despite the ambiguity of the law.
- In FY15, New Jersey schools implemented the Governmental Accounting Standards Board’s Statement No. 68, Accounting and Financial Reporting for Pensions. This resulted in schools showing their proportionate share of the state’s net pension liability on their financial statements, even though the individual schools are not directly responsible for the liability. Many schools suddenly showed fund balance deficiencies (negative net assets) as a result. Analysts of charter school financial statements should discuss the school’s pension obligations with the school business administrator for clarity.

Attendance
- Students residing in the school district in which the charter school is located are given preference for enrollment. If space permits, a charter may enroll non-resident students. School districts are generally consistent with city boundaries, particularly in New Jersey’s large urban districts like Newark and Camden.
- A random selection process such as a lottery is mandated if applications exceed available seats. A charter may give enrollment priority to a sibling of a student enrolled in the charter school.
Charter schools’ admission policies must seek enrollment of a cross section of the sending district’s school-age population based on racial, economic and academic factors.

Closures

A charter school may be closed if it violates any provision of its charter or fails to meet the standards set forth in its charter agreement or within the Performance Framework (discussed under Reporting and Testing, below). The Commissioner may revoke charters at any time (with or without a probationary period), and a charter school’s Board of Trustees may surrender its charter at any time.

The charts below depict charter school closures from the year 2000 to 2017:

Since 2013, the predominant reason that the Commissioner revoked charters from operational schools was poor academic performance or instruction or financial mismanagement. In practice, academic performance has largely been judged against the sending district. In most cases, charters were revoked following a probationary period.
Since June 2011, no operational school has voluntarily surrendered its charter.

Since 2013, six charters have not been granted a renewal, with reasons including lack of evidence of quality education and/or lack of evidence of improving student achievement.

### Reporting and Testing

The Commissioner reviews each charter school annually to ensure it is meeting the goals of its charter. To maintain financial oversight, charter schools are required to submit the following information to the NJDOE annually:

- Monthly board minutes
- First, second and third quarter financial statements
- Comprehensive Annual Financial Report
- Annual lease and facility summary information
- Annual fiscal questionnaire (includes information on enrollment, accounting/reporting, pensions and health benefits)
Revised budget based on October 15 enrollment count
Annual budget summary, itemized narrative, cash flow statement and board resolution

Charter schools must also file a separate annual report, which aligns to the NJDOE Office of Charter and Renaissance School’s Performance Framework. This annual report is made available to parents/guardians of students enrolled in the charter school to keep them informed about the school’s progress.

The Performance Framework was created by the NJDOE in December 2012 and sets the criteria by which all charters in New Jersey are evaluated. The framework is comprised of three areas:

- **Academic Performance Framework**: This section is the most heavily weighted in decisions on expansion, renewal, replication and revocation. Academic performance is tested in three grade level segments: grades 3-5, grades 6-8 and grades 9-12. The framework considers the following:
  - Academic Achievement – Performance on state testing.
  - Student Growth – Academic achievement of the same students over time.
  - Leading Indicators – Rates of chronic absenteeism and participation in advanced courses and testing.
  - Closing Gaps – Achievement of minorities, English Language Learners, and economically disadvantaged students versus all other students.
  - Graduation Rate – Four-year graduation rate for high schools only.

- **Organizational Performance Framework**: This section of the framework is divided into five performance areas:
  - Education Program and Capacity – Subjective measures regarding the quality of instruction, assessments, and organizational leadership, and objective measures such as the curriculum’s compliance with state standards and the school’s implementation of key elements in its charter.
  - School Culture and Climate – Subjective measures related to the learning environment and the school’s relationships with the public and its partners.
  - Board Governance – Subjective measures related to the board’s quality and objective measures related to compliance with state law and regulations.
  - Access and Equity – A mix of subjective and objective measures related to the school’s treatment of students with disabilities and English Language Learners and its commitment to serve all students fairly and equitably.
  - Compliance – An evaluation of the school’s compliance with state and federal laws, regulations, and reporting requirements.

- **Financial Performance Indicators**: This section evaluates charter schools in three key areas:
  - Near Term Indicators
    - Current Ratio – A minimum of 1.1 meets the standard (schools past their first year of operations may be between 1.0 and 1.1 if the trend is positive).
    - Unrestricted Days Cash on Hand – A minimum of 30 days meets the standard for first- and second-year schools, and a minimum of 60 days meets the standard for older schools (or between 30 and 60 days if the trend is positive).
- Enrollment Variance – The standard requires schools to meet or exceed their planned enrollment or reach at least 95% of their projected enrollment in the current year and the last three trailing years (or all years of existence for schools less than three years old).
- Default on Loans – The standard requires schools to be in compliance with all loan covenants and current on all loan payments.
  o Sustainability Indicators
    - Cash Flow – Three-year cumulative cash flow must be positive, with positive cash flow in two of the last three years including the most recent year (first- and second-year schools must have positive cash flow).
    - Debt Service to Coverage Ratio – A minimum of 1.10 meets the standard.
  o Financial Compliance Indicators
    - Financial Audit – Schools must receive an unqualified audit opinion with no significant deficiencies or weaknesses in internal control.
    - Financial Management and Compliance – Schools must employ a School Business Administrator (contracted professionals are permitted) and timely submit all required financial reporting.

**Academic Performance Measures**
The NJDOE utilizes the standardized test known as the Partnership for Assessment of Readiness for College and Careers (PARCC). This assessment focuses on English Language Arts (ELA) and Math for grades 3 to 11. Governor Phil Murphy is planning to phase out the PARCC assessment as a requirement to graduate from New Jersey high schools. Student scores fell across the state when the PARCC exam was introduced in the 2014-15 school year, and the test has become a hotly debated topic along with the Common Core curriculum that is its basis. The state is now assessing alternatives and is seeking input from superintendents, teachers, test administrators, parents/guardians, students and other stakeholders.

- PARCC reports performance in five groupings:
  o Level 1: Not yet meeting expectations
  o Level 2: Partially meeting expectations
  o Level 3: Approaching expectations
  o Level 4: Meeting expectations
  o Level 5: Exceeding expectations

**Enrollment Information**

A majority (67%) of charter students attend non-profit independent schools. Thirty percent (30%) of charter students are served by non-profit charter management organizations, and the remaining 3% of charter students are served by for-profit educational management organizations.
Demographic Information

Source: (https://www.state.nj.us/education/data/enr/)
Source: (https://www.state.nj.us/education/specialed/data/)
Note: 2017-18 data are not yet available.

Cities with the Highest Number of Charter Schools

The table below lists the six cities with the highest number of active charter schools for 2017-18:

Source: (https://www.njcharters.org/factsheets)

Academic Performance

School-level PARCC performance is measured as an average. The charts below denote the percentage of students that have met or exceeded expectations (level 4 or 5) for the past three academic years across the entire state.
Overall, for both English Language Arts (ELA) and Math, non-charters have outperformed charter schools over the last three academic years across all subjects in most grade levels. The gap is especially pronounced in high school-level Math. It is important to note that the 'non-charter' classification includes both public and private institutions, and charter schools are concentrated in areas with lower academic performance, including New Jersey’s urban centers.

### Academic Performance in Urban Districts

The chart to the right depicts the percentage of subject and grade level combinations (i.e. Grade 4 Math, Grade 6 ELA, etc.) in which charters outperformed non-charters in their respective district in the 2016-17 academic year. Charters in all six cities noted outperformed non-charters in grades 3-8 in ELA and Math. With the exception of Jersey City charter high schools, which underperform non-charters in all subjects and grade levels, charter high schools exceed non-charter proficiency rates in at least 80% of subject-grade level combinations.

See the Appendix for charter versus non-charter academic performance in the top six cities. Charter schools in New Jersey are concentrated in the lowest-performing urban school districts and generally demonstrate stronger academic outcomes than their sending districts.
Appendix

Measuring Success

The data below reflect the six cities with the most charter schools: Newark, Jersey City, Trenton, Paterson, Camden and Plainfield.

Student performance is based on PARCC assessment data provided by the NJDOE (https://www.state.nj.us/education/data/). These areas were selected based on the large population of charter schools:

Number of Schools by Type

<table>
<thead>
<tr>
<th>City</th>
<th>Elementary Schools</th>
<th>Middle Schools</th>
<th>K-8 Schools</th>
<th>High Schools</th>
<th>K-12 Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newark</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Jersey City</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Trenton</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Paterson</td>
<td>1</td>
<td>0</td>
<td>4*</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Camden</td>
<td>1</td>
<td>0</td>
<td>1**</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Plainfield</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

*This includes a K-9 school
**This is a K-6 school

Data for the FY15 through FY17 school years are presented in the following tables. Data prior to the FY15 school year are not applicable, as PARCC assessment results are not comparable to previous years' assessment results.
Grade 3-8 ELA

Average Percentage of Grades 3-8 ELA Students That Met/Exceeded Proficiency Standards

For three consecutive years, charters in all six cities outperformed non-charters in Grade 3-8 ELA.
For three consecutive years, charters in all six cities outperformed non-charters in Grade 3-8 Math.
For three consecutive years, charters in four cities outperformed non-charters in Grade 9 ELA.
Algebra 1

Average Percentage of Algebra 1 Students That Met/Exceeded Proficiency Standards

For three consecutive years, charters in four cities outperformed non-charters in Algebra 1.
For three consecutive years, charters in five cities outperformed non-charters in Grade 10 ELA.
Geometry

Average Percentage of Geometry Students That Met/Exceeded Proficiency Standards

For three consecutive years, charters in five cities outperformed non-charters in Geometry.
For three consecutive years, charters in four cities outperformed non-charters in Grade 11 ELA.
For three consecutive years, charters in four cities outperformed non-charters in Algebra 2.