Charter Policy Issue Brief

State charter school loan programs

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

This document examines state policies for state charter school loan programs established to provide lower cost or more accessible financing options. This document is divided into two sections: The first one focuses on a table that presents a variety of details about each state's policies for charter school loan programs; the second section outlines some policy considerations for state policymakers and advocates to wrestle with when designing state charter school loan programs.

Section I: State policies for state charter school loan program table

As of this writing, 14 states and the District of Columbia have enacted policies for state charter school loan programs. The table below presents various details about each state's policies for charter school loan programs. The states are listed in order of the percent of charter schools participating in the respective state's loan program, from largest to smallest. The text box after the table provides more information about what each column of the table represents.

State	Percentage of charter schools	Total amount committed	Average loan	Funds available[1]	Initial funding level	Maximum loan amount	Length of term	Interest rates	Management[2]	Eligibility criteria
Utah	54%	$17,600,000	$200,000	Unsure	$2,000,000	$1,000/student OR $300,000	5 years	1.75%	O	New schools/ urgent needs prioritized
District of Columbia	42%	$96,000,000	$1,846,154	$15,500,000	Unsure	$2 million OR 20% of project	5 years	Low interest	O	Meeting performance goals
Indiana	32%	$45,000,000	$1,184,211	$0	$45,000,000	$5 million	10 years	1%	S	First or second year, academic strength, or demographics
California	26%	$59,335,000	$231,777	$19,600,000	$114,000 of federal grant plus state funding	$250,000	5 years	0.21% to 2.45%	O	New schools prioritized
Louisiana	8%	$1,061,905	$88,492	$18,780	$1,300,000	$100,000	3 years	No interest	S	New schools prioritized
Nevada	8%	$611,140	$87,306	$138,860	$750,000	$500/student OR $200,000	3 years	Market rate	O	New schools only
Florida	1.40%	$86,119,463	$8,611,946	$13,880,537	$100,000,000	25% of project cost	–	Lower of two options	C	Limited to schools of hope
South Carolina	1.10%	$500,000	$500,000	$1,100,000	$1,600,000	$500,000	15 years	Low interest	O	–
Illinois	N/A	$38,000	N/A	Unsure	Unsure	$750/student	5 years	No interest	O	New schools only
Arkansas–23	–	–	–	$10,000,000	$10,000,000	–	–	–	C	Academic and financial strength

Idaho[3]	–	–	–	$50,000,000	$50,000,000	$2.5 million	–	–	O	New schools only
New Mexico[3]	–	–	–	$10,000,000	$10,000,000	–	–	–	O	At least one renewal
Arkansas–1	0%	$0	–	$0	–	–	–	–	O	–
Colorado	0%	$0	–	Unsure	–	–	–	–	S/O	Credit
Rhode Island	0%	$0	–	$0	–	–	–	–	S	New schools only
Tennessee	0%	$0	–	$0	–	–	–	–	S/O	–

1. Yellow = no longer active; orange = never active; white = active; green = new.
2. S = state education agency (gray); O = other state agency (blue); C = state contracts with private manager (purple); multiple still white.
3. Arkansas, Idaho and New Mexico all have new programs so details and outcomes are unknown at this point.

State policies for charter school loan program table column descriptions

Percentage of charter schools: The number of charter schools that have received a loan divided by the total number of charter schools in 2022.

Total amount committed: The total funding committed or loaned to charter schools for the duration of the loan program.

Average loan: The total amount committed divided by the number of schools that have benefitted from the loan program.

Funds available: Most programs are funded through a single appropriation or a couple of appropriations and then that pot of funding is used to provide loans for schools over the years. Also, as schools repay their loans, those repayments replenish the funds available to loan out to other charter schools. Therefore, this total shows how much is available to loan to charter schools.

Initial funding level: The total funding provided in the first year of the program.

Maximum loan amount: The maximum allowed loan amount specified either in statute or application materials developed by the program administrator.

Length of term: The maximum number of years to repay the loan outlined in statute or regulations.

Interest rates: The set interest rates or formula to determine the interest rate from statute or regulations.

Management: Different entities are given authority to manage the charter school loan programs. They could be state education agencies, other state agencies (e.g., a state finance authority, the treasury department or a charter school authority), or a private third party that contracts with the state to manage the program (e.g., Building Hope for Florida).

Eligibility criteria: Different programs may target different types of charter schools. The main characteristic seems to be for new schools (e.g., within the first two years). Either the program is for new schools only or new schools are prioritized in the applications. Additional targeted criteria are either strong performance or the urgency of the needs.

Section II: Policy considerations

For most charter schools whose facilities are not free or covered by state program funds, access to financing provides revenue for needed costs such as acquisition, construction and tenant improvements. Financing options, however, are not uniformly available across the wide variety of charter school borrowers. Even where available, they involve costs (interest and related fees) that come out of school operating budgets.

In most states, there are more schools and outstanding financing needs than state funding is going to be able to support, so states may find themselves having to prioritize among borrowers, purposes and projects.

If states choose to be a lender, they may consider outsourcing the lending process to organizations involved in charter school facility lending.

Many of the existing state charter school loan program statutes are unfunded or inactive. It's unclear why, though it is important to note that the statutory enactment is the first step in the process, followed by an appropriation making the program functional. It appears that the second step never seemed to happen in several states.

Loan programs seem to need the right combination of people, money and purpose to function as hoped for.