



ISSUE: Charter School Facilities & Lease Aid

Since the enactment of the charter school law in 1991, chartered public schools have been prohibited from using public funds to purchase or construct school facilities. Schools have been required to lease their school facilities from a non-profit, public organization, nonsectarian organization, private property owner, or sectarian organization (if the space is constructed as a school facility). In the late 1990's, schools found leasing suitable space a growing problem, so some schools formed what the law calls an Affiliated Building Company (ABC). ABC's are non-profit corporations organized under IRS rules, whose only function is to own the building and then lease it to the charter school. In 2009, the legislature put several requirements in law to regulate which schools qualify to create an ABC. **The ABC route is costly and provides no asset for the state if the school closes.**

In 1997, the Legislature enacted Lease Aid to assist schools with the cost of leasing space given that schools could not own facilities. Today, charters are eligible to receive up to 90% of \$1,314 per pupil, which means 10% of lease costs need to be from general funds. **In FY20, total lease costs of all charters amounted to \$108.4 million dollars, with a Lease Aid appropriation of only \$85.4 million.** This means an additional \$12 million was paid from the schools' general funds beyond the 10% required by law to be paid from the general fund. All schools are facing increasing lease costs, and given lease aid has not been raised in over a decade, every year more lease costs are coming out of general funds for the classroom.

STATUTORY REFERENCE: MN Statutes 124E.26, 124E.22, and 124E.13

POLICY SOLUTION: Direct Ownership, Bonding & Revamp Lease Aid

- Allow direct ownership of school facilities for qualifying schools.
- Repeal the ban on the use of public funds to purchase charter school facilities.
- Transfer facilities owned by ABC's to the school corporation upon refinancing or payoff of bonds or mortgage.
- Establish a state bonding authority to issue bonds for charter school facilities.
- Revamp Lease Aid to Facilities Aid and create Facility Preservation Aid for schools that own buildings but have no mortgage or facilities debt.
- Link increases in Facilities Aid to increases in the general formula.

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