RYAN A. BIZZARRO, CHAIRMAN
414 MAIN CAPITOL BUILDING
P.O. BOX 202003
HARRISBURG, PENNSYLVANIA 17120-2003
(717) 772-2297
FAX: (717) 780-4767

HOUSE DEMOCRATIC POLICY COMMITTEE
WEBSITE: WWW.PAHOUSE.COM/POLICYCOMMITTEE
EMAIL: POLICY@PAHOUSE.NET
@PADEMPOLICY

HOUSE OF REPRESENTATIVES
COMMONWEALTH *of* PENNSYLVANIA

House Democratic Policy Committee Hearing

Charter School Reimbursement

Wednesday, March 22, 2023 | 12:00 p.m.

Representative Joe Ciresi

OPENING REMARKS
12:00 p.m. Rep. Joe Ciresi (D-Montgomery)

PANEL ONE

12:05 p.m. Hannah Barrick, Executive Director
Pennsylvania Association of School Business Officials

Q & A with Legislators

PANEL TWO

12:30 p.m. Wayne Gehris, Chief Financial Officer
Reading School District

Q & A with Legislators

CLOSING REMARKS
12:55 P.M. Rep. Joe Ciresi (D-Montgomery)

Remarks and Testimony can be found by scanning the QR Code below:

Pennsylvania Association of School Business Officials

Testimony to the House Democratic Policy Committee
Wednesday, March 22, 2023
Hannah Barrick
Executive Director, PASBO

The PA Association of School Business Officials (PASBO) comprises school business officials who are responsible for building school district budgets and managing school district finances. Ensuring stability, predictability and sustainability of school district revenues and expenses is a priority for our members, and growing charter school expenditures—along with increasing employee pension and special education costs— consistently create fiscal stress for school districts across the commonwealth. As a result, charter school funding reform has been a priority for our members for decades, and there is a better way to fund charter schools—one that is fair and consistent for all stakeholders.

From our perspective, the issue of charter school funding reform is not a debate on school choice, on school quality or educational programming. Charter schools have existed for more than two decades, they educate tens of thousands of students statewide; they're a part of Pennsylvania's public education system.

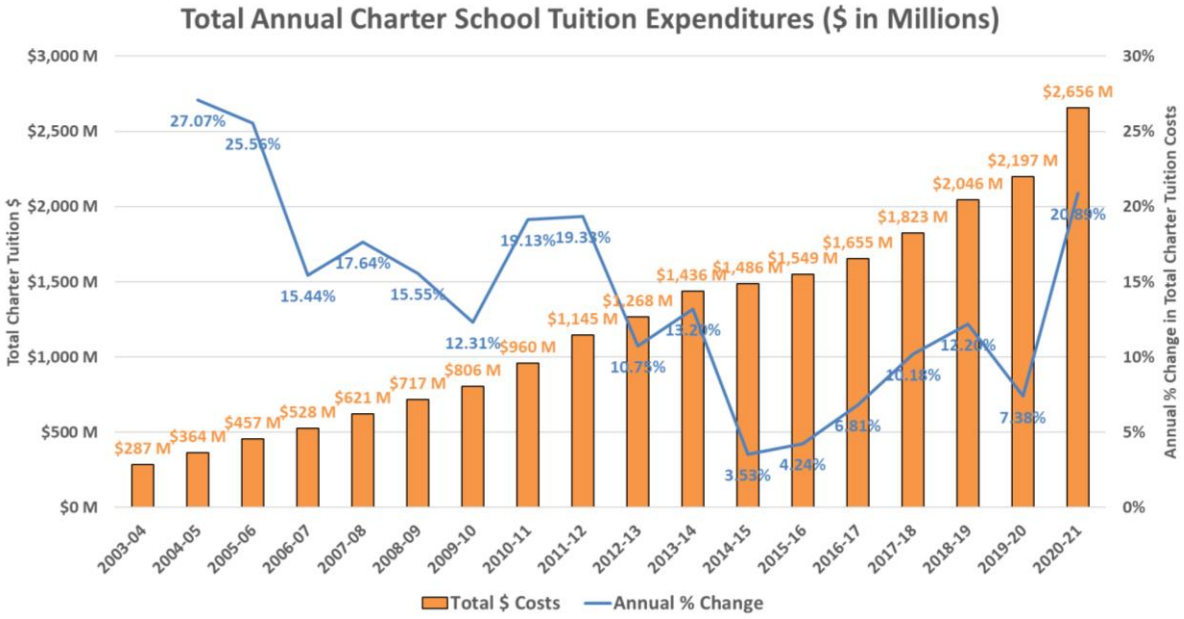
The goal, from our perspective, is to revise the funding mechanism to develop a system that is fair to everyone—including charter schools. Current policy is having a detrimental financial impact on school districts, taxpayers and students alike. It's time to make some adjustments to this 1997 policy to inject some financial stability and predictability into the process for school districts and to, hopefully, mitigate the adversarial relationship that sometimes exists between school districts and charter schools because of the tuition calculation.

Background

Our prioritization of charter school funding reform derives from the fact that charter school tuition expenditures are one of the fastest growing areas of school district budgets. Between 2011-12 and 2020-21 (the most recent year for which we have publicly available Annual Financial Report data from the PA Department of Education (PDE)), statewide charter school tuition costs grew by $1.5 billion—more than doubling.

School districts paid more than $2.6 billion in charter school tuition costs in 2020-21, and charter school expenditures represented nearly 8% of total school district operating costs. In terms of scope, this $2.6 billion in charter school tuition costs represented about 17% of the total property tax revenue collected by school districts in 2020-21.

School districts must pay tuition for every resident student that attends a charter school, and charter school tuition costs grow each year. The graph below shows both the total statewide charter school tuition expenditures each year and the annual percentage increase in these total expenditures.



Source: PDE Annual Financial Report data

For comparison, the table below shows the annual increase in charter school tuition costs as well as the annual increase in basic education funding (BEF). The BEF formula increases are actual through all fiscal years, and the charter tuition is estimated for 2021-22 and 2022-23 (as final data are not yet available from the state).

Actual data shows new BEF formula increases lag charter tuition increases by $470.6 million through 2020-21. Based on estimated charter school tuition increases for the past two years, the BEF increases end up about $65.6 million short.

FY	562 Obj code Charter Tuition increase	New BEF Formula Increase	BEF Increase less Charter Increase	Cumulative
2015-16	$ 63,009,394	$ 152,398,840	$ 89,389,446	$ 89,389,446
2016-17	$ 105,548,648	$ 200,000,000	$ 94,451,352	$ 183,840,798
2017-18	$ 168,412,447	$ 100,268,443	$ (68,144,004)	$ 115,696,794
2018-19	$ 222,412,447	$ 85,999,961	$ (136,412,486)	$ (20,715,692)
2019-20	$ 151,079,359	$ 159,999,951	$ 8,920,592	$ (11,795,101)
2020-21	$ 458,852,910	$ -	$ (458,852,910)	$ (470,648,011)
2021-22	$ 150,000,000	$ 200,000,000	$ 50,000,000	$ (420,648,011)
2022-23	$ 170,000,000	$ 525,000,000	$ 355,000,000	$ (65,648,010)

SOURCE: PDE Annual Financial Report data

This mandated cost is outside the control of school districts, and the tuition calculation that was put into place in 1997 basically ensures annual increases in the charter school tuition rate for school districts, increasing overall charter school tuition expenditures even if charter school enrollment remains static.

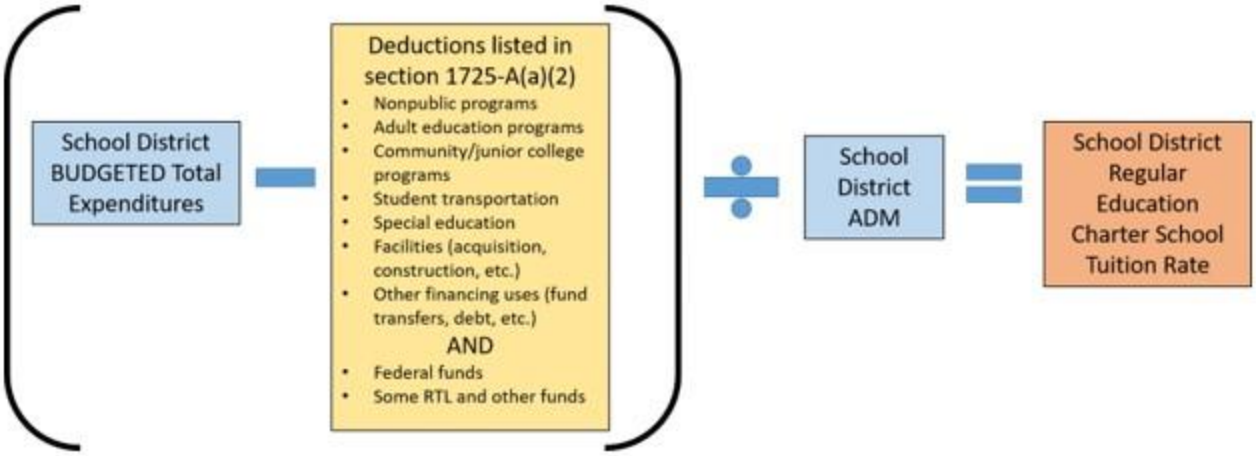
The Charter School Tuition Calculations

The annual growth in charter school tuition expenditures is a result of the charter school tuition calculation in section 1725-A of the Public School Code. The calculation articulates the tuition amount each resident school district pays to a charter school—either brick and mortar or cyber—for a regular education student and a special education student.

The tuition amount is based entirely upon the school district's costs, not a charter school's cost. As a result, there are 500 charter school tuition rates—one for each school district. That means that a charter school that educates students from multiple school districts receives an entirely different amount for each student.

For a regular education student (a student without an IEP) attending a charter school, the school district starts with their budgeted total school district expenditures from the prior school year. Then, they make some deductions to that total amount for several expenditures—these expenditures either reflect areas where charter schools have no corresponding cost, where school districts are required to provide services to charter schools or where charter schools receive state or federal funding for the same purpose as school districts. Special education expenditures are also deducted.

The graphic below illustrates the calculation that a school district does on an annual basis to define their regular education charter school tuition amount.

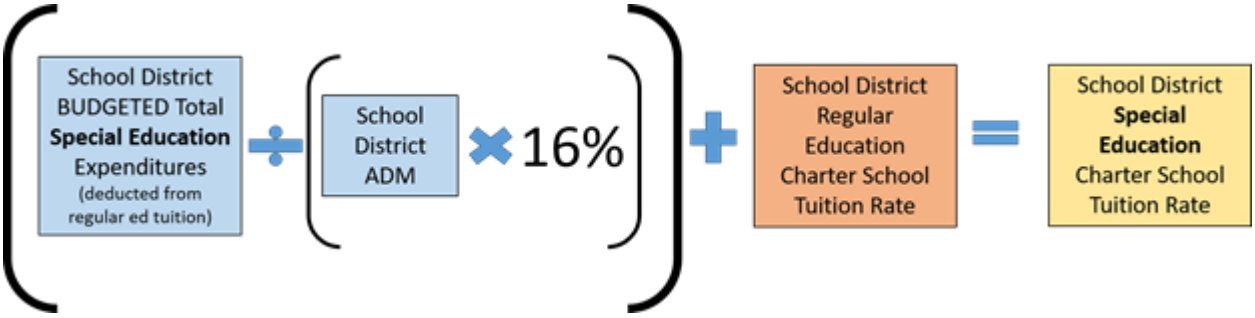


The total school district budgeted expenditures minus the appropriate deductions is then divided by a school district's Average Daily Membership (ADMs) for the prior year. The result is the regular education charter school tuition rate. For 2021-22, this rate ranged from about $9,000 to nearly $23,800 per student.

If a student attending a charter school requires special education services and has an IEP, the school district pays a different—higher—tuition for that student in which a supplement is added to the district's regular education charter school tuition rate discussed above.

To calculate the special education charter school tuition rate, the school district starts with their total budgeted school district special education expenditures for the prior year. Those school district special education expenditures are then divided by 16% of the school district's ADMs. Sixteen percent is used in this calculation because it was placed in the formula by law to represent the average percentage of special education students in a district. However, the actual average percentage of special education students is greater than 16%.

The resulting amount is then added to the regular education charter school tuition rate. This sum becomes the special education tuition rate. The graphic below illustrates the annual calculation to determine the special education charter school tuition rate.



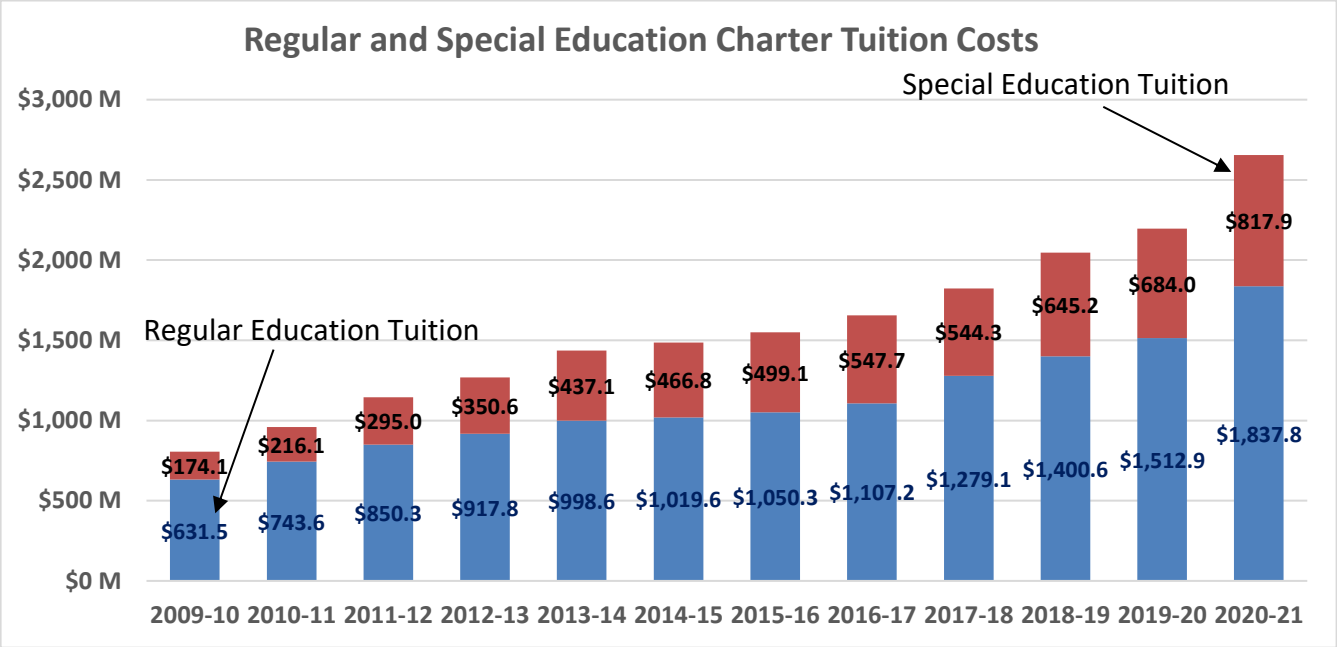
The special education tuition rate is generally more than twice as high as the regular education tuition rate. For 2021-22, the special education charter school tuition rate was, on average, more than $16,500 per student higher than the regular education tuition rate. For 2021-22, special education charter school tuition rates ranged from $18,500 to more than $57,000 per student.

Based on the charter school tuition calculations discussed above, the amount of charter school tuition a school district pays—and how quickly the tuition increases from year to year—is largely dependent on factors outside a school district's control. However, rises in mandated costs for school districts—namely pensions, special education and charter school tuition—ensure that the charter school tuition rate goes up every year.

Since school district pension costs, school district special education costs and charter school tuition costs are all factored into the charter school tuition calculation as part of a school district's budgeted total expenditures, when these costs go up—which occurs every year—the charter school tuition rate increases. This creates a mandated cost feedback loop in which rising mandated costs that increase school district total expenditures increase charter school tuition expenditures, which then increases school district expenditures and so on.

Additionally, school districts facing declining enrollment often see an increasing charter school tuition rate simply because the denominator of the calculations discussed above is getting smaller.

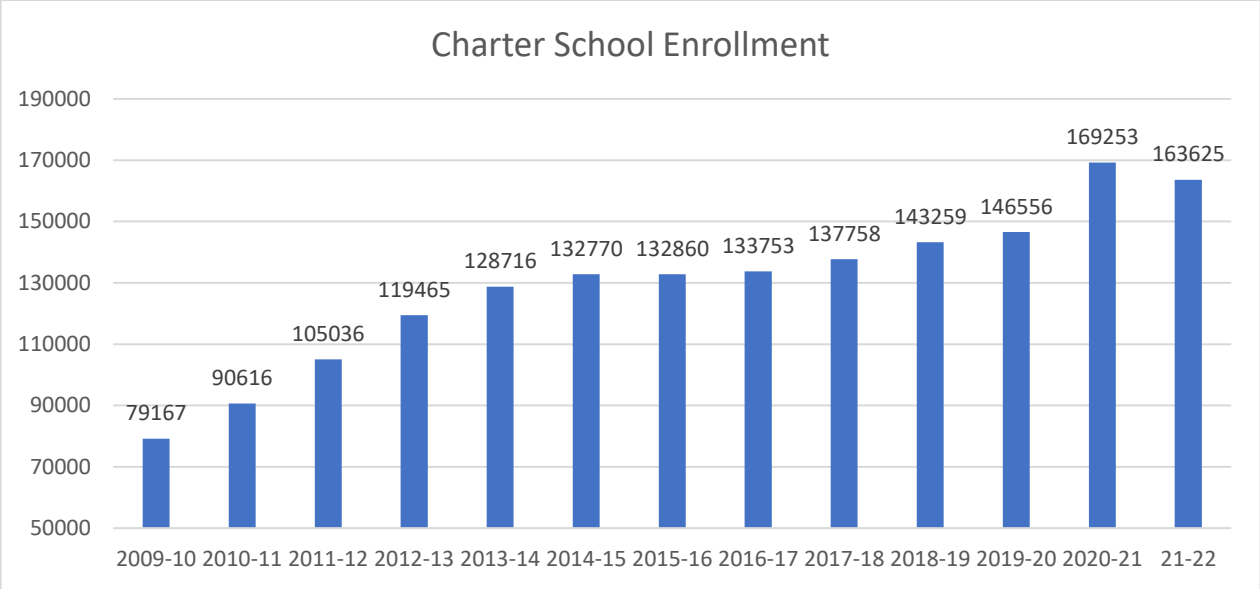
The chart below illustrates the differences in the distribution of school district charter school tuition expenditures between regular education and special education tuition.



Source: PDE Annual Financial Report data

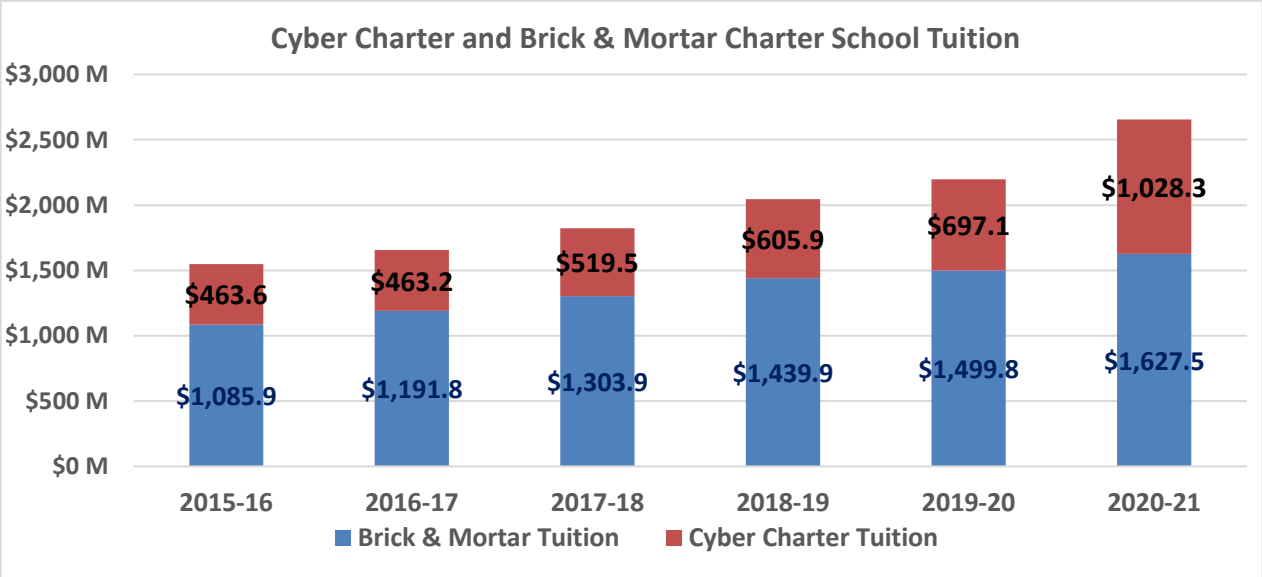
In addition to mandated cost increases and/or enrollment declines, both of which increase the individual school district charter school tuition rates, overall charter school tuition expenditures increase in many school districts because charter school enrollment continues to grow. While the impact of charter school enrollment growth differs for every school district, some school districts struggle with significant increases in enrollment from year to year in addition to tuition rate increases.

The graph below illustrates the growth in charter school enrollment over time across brick and mortar charter schools and cyber charter schools. In the midst of the pandemic, cyber charter schools saw a significant increase in enrollment, much of which was maintained in 2021-22 following the pandemic.



Source: PDE Charter School Enrollment reports

The chart below illustrates the differences between school district charter school tuition paid to brick and mortar charter schools and to cyber charter schools. The charter school enrollment increase in 2020-21, as illustrated in the chart above, was predominantly experienced by cyber charter schools, and the growth in cyber charter school expenditures as a result of that enrollment increase is evident below.



Source: PDE Annual Financial Report data

Charter School Funding Reform Options

Recognizing the financial impact of the current charter school tuition calculations on school district finances and the growing burden on local taxpayers, PASBO has consistently advocated for changes to the charter school tuition calculation to both provide relief to school districts from these increasing

mandated costs and to ensure that the calculation is fair for school districts, charter schools and taxpayers alike.

In terms of making improvements to the charter school funding system, we believe there are many ways to tackle this problem, slow the growth in charter school tuition costs and provide needed relief to school districts and taxpayers.

One option would be to make a change to the charter school special education tuition rate by modifying one number in the calculation and using actual data. As discussed above, the current calculation requires a school district to divide its special education expenditures by 16% of its total population, regardless of its actual special education percentage of students. When the charter school law was written, the average special education population of a school district was about 16%; however, today, the special education population is much greater than 16% in most school districts.

School districts with a special education population greater than 16% are paying a higher charter school special education tuition rate than they should, since they're dividing by a number that's smaller than their special education population.

As an easy example, assume a school district has $30,000 in special education expenditures and 100 ADMs. The current special education charter school tuition rate would require the $30,000 to be divided by 16% of 100 students—or 16. This would result in a special education amount of $1,875. That amount would be added to the district's regular education tuition rate.

If, however, the school district had a special education population of 25%, rather than use a fictitious 16%, the denominator would be 25, and the special education amount added on to the regular education tuition rate would be $1,200.

Based on the most recently available data (using Act 16 data, which is used in the special education funding formula), the proposal would reduce the special education charter school tuition rate for most school districts because their special education percentages are greater than 16%. School districts with a special education population of less than 16% would see an increase in their charter school special education tuition rate.

Another option would be to have the state reinstate partial funding for charter school tuition costs—or provide full reimbursement to districts based on cost or wealth levels. The state had been funding about 25% of these costs in the past, but the reimbursement stopped in 2011-12, sending over $225 million instantly to taxpayers in that single year.

This could be done to provide relief to all school districts, or it could be targeted to provide relief to those school districts with the largest charter school cost increases, the greatest charter school tuition increases or even the greatest impact on taxpayers. Additionally, since school districts have no authority to authorize cyber charter schools, another option would be for the state to target reimbursement to

school districts based on cyber charter enrollment—or even to begin to fund cyber charter school tuition in its entirety.

While the amount of savings for school districts would be dependent upon the policy direction of reimbursement and a corresponding state appropriation, this option would ensure that the state is at least partially financially responsible for the policy they've implemented and that charter school costs are not borne by school districts and taxpayers alone.

While these options are just three of many possibilities for addressing the underlying charter school tuition calculation, we believe these options take at least an initial step in ensuring that the calculation is reasonable and fair for all involved and that most school districts and taxpayers receive relief in the process.

Again, as an association made up of school business officials, charter school funding reform remains a priority. There is certainly a better way to fund charter schools—a way that will work for school districts, taxpayers and charter schools, and we are appreciative of your attention to and engagement in this important issue.

Thank you for your time and attention.

HOUSE DEMOCRATIC POLICY COMMITTEE

READING

SCHOOL DISTRICT

MARCH 22, 2023

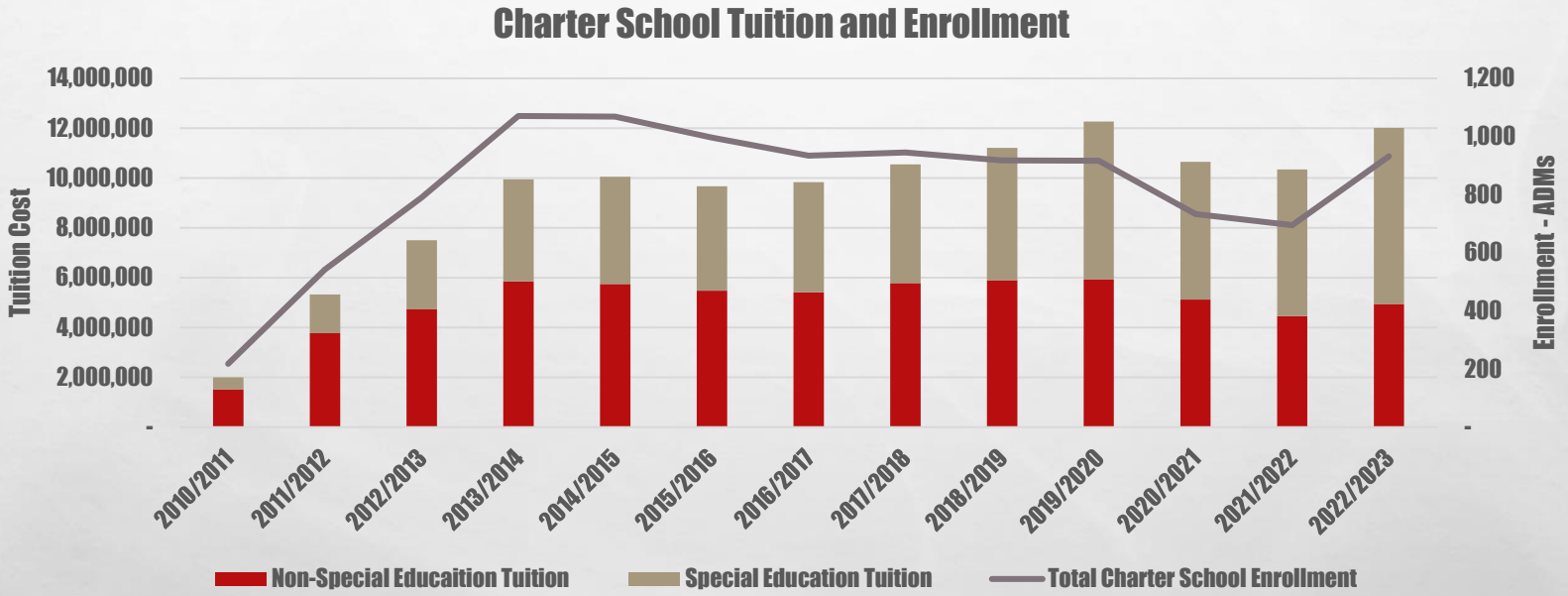
HOUSE DEMOCRATIC POLICY COMMITTEE

Charter School Reimbursement From a District's Perspective

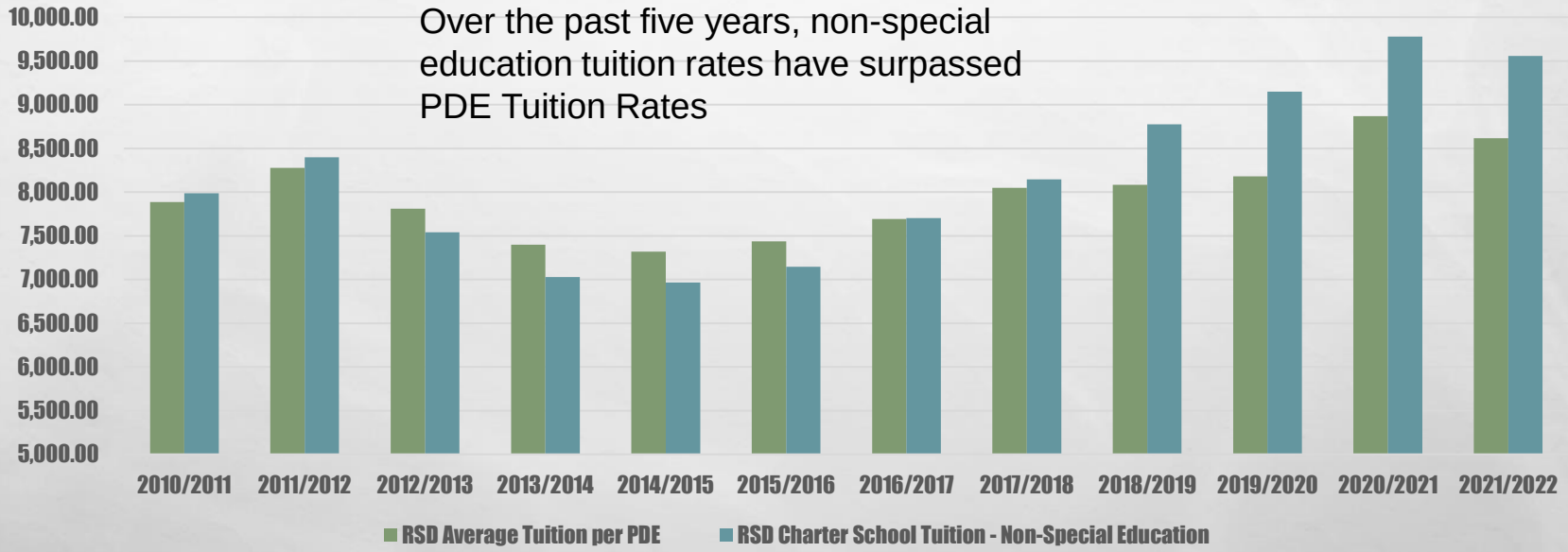
HISTORICAL CHARTER SCHOOL TUITION AND ENROLLMENT

	Tuition			Enrollment - ADMs		
School Year	Non-Special Educaition Tuition	Special Education Tuition	Total Charter School Tuition	Non-Special Educaition	Special Education	Total Charter School Enrollment
2010/2011	1,510,730.10	482,948.57	1,993,678.67	189.133	28.185	217.318
2011/2012	3,766,253.17	1,554,670.75	5,320,923.92	448.427	93.272	541.699
2012/2013	4,727,121.10	2,768,593.64	7,495,714.74	627.004	162.812	789.816
2013/2014	5,847,718.41	4,097,430.13	9,945,148.54	832.053	238.249	1,070.302
2014/2015	5,736,666.97	4,315,537.10	10,052,204.07	823.278	244.967	1,068.245
2015/2016	5,470,491.97	4,193,525.42	9,664,017.39	765.426	230.601	996.027
2016/2017	5,414,980.23	4,415,268.37	9,830,248.60	702.963	230.650	933.613
2017/2018	5,777,590.93	4,774,618.66	10,552,209.59	709.080	236.117	945.197
2018/2019	5,898,932.73	5,315,391.83	11,214,324.56	672.217	245.090	917.307
2019/2020	5,937,126.05	6,328,507.91	12,265,633.96	648.801	267.352	916.153
2020/2021	5,113,275.06	5,534,530.40	10,647,805.46	522.818	210.349	733.167
2021/2022	4,452,024.61	5,884,573.32	10,336,597.93	465.825	229.086	694.911
2022/2023	4,943,447.27	7,065,325.66	12,008,772.93	616.343	315.977	932.320

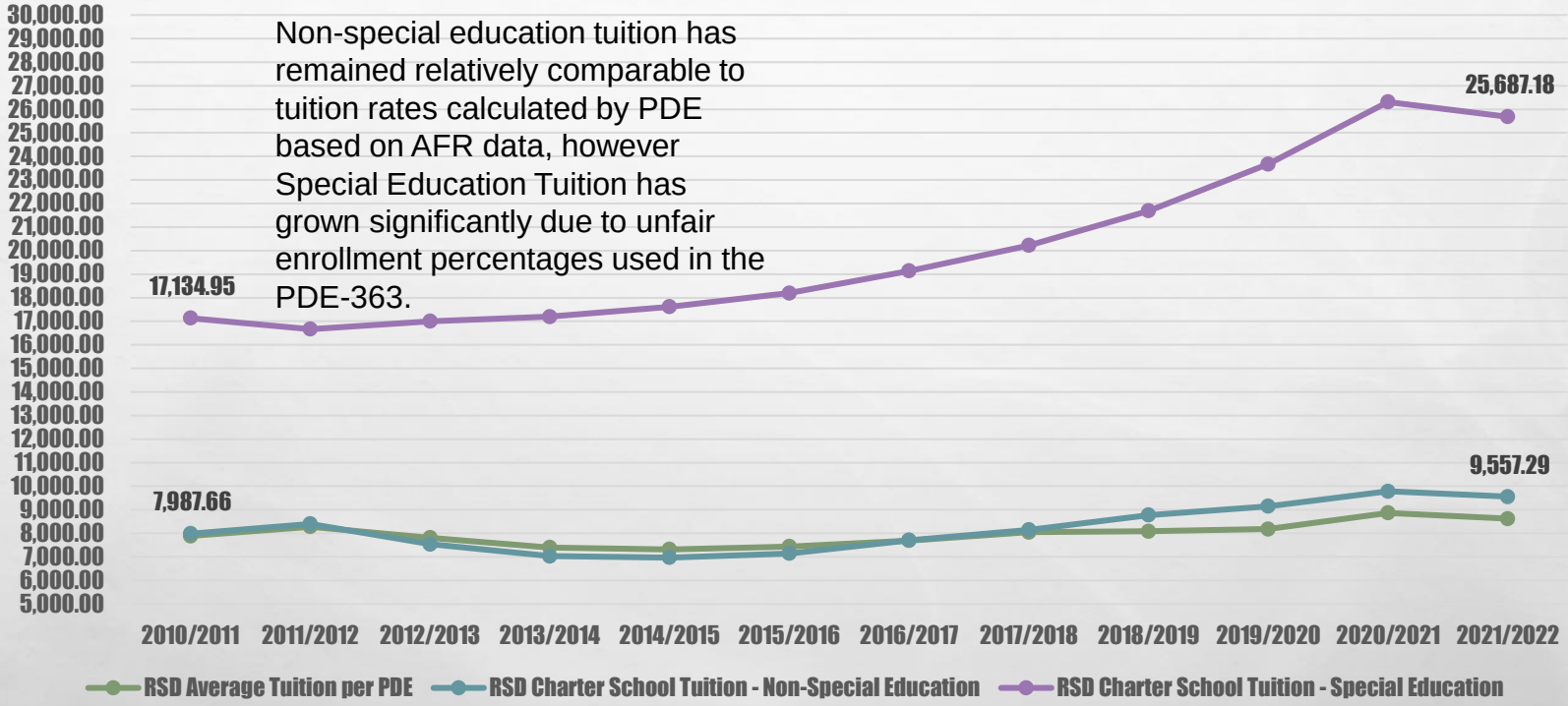
HISTORICAL CHARTER SCHOOL TUITION AND ENROLLMENT



NON-SPECIAL EDUCATION TUITION COMPARISON



TUITION RATE COMPARISON

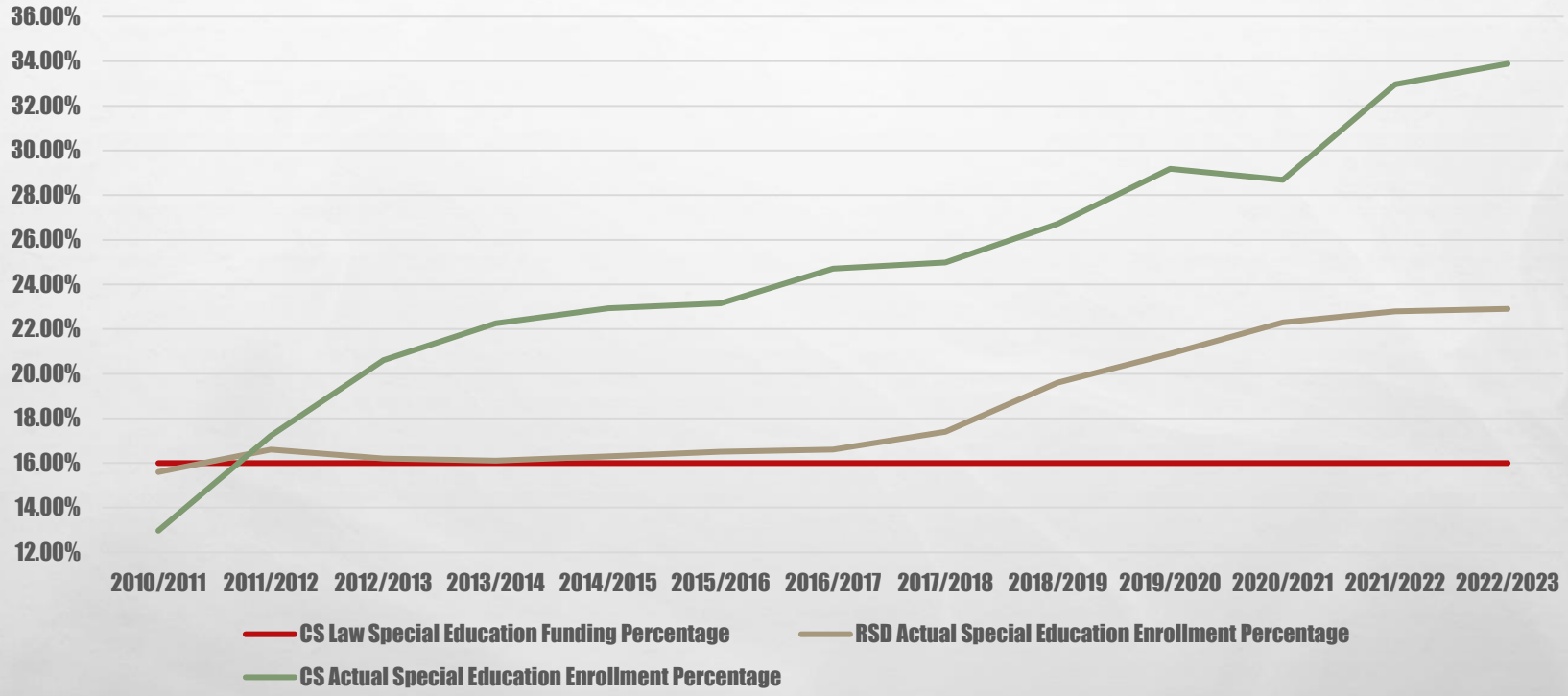


School Year	CS Law Special Education Funding Percentage	RSD Actual Special Education Enrollment Percentage	CS Actual Special Education Enrollment Percentage
2010/2011	16.00%	15.60%	12.97%
2011/2012	16.00%	16.60%	17.22%
2012/2013	16.00%	16.20%	20.61%
2013/2014	16.00%	16.10%	22.26%
2014/2015	16.00%	16.30%	22.93%
2015/2016	16.00%	16.50%	23.15%
2016/2017	16.00%	16.60%	24.71%
2017/2018	16.00%	17.40%	24.98%
2018/2019	16.00%	19.60%	26.72%
2019/2020	16.00%	20.90%	29.18%
2020/2021	16.00%	22.30%	28.69%
2021/2022	16.00%	22.80%	32.97%
2022/2023	16.00%	22.90%	33.89%

SPECIAL EDUCATION ENROLLMENT

- CURRENT CHARTER SCHOOL LAW DOES NOT KEEP PACE WITH THE RISE IN IDENTIFIED SPECIAL EDUCATION STUDENTS
- AS A RESULT, THE TUITION COST CALCULATED USING PDE-363 SIGNIFICANTLY INFLATES THE SPECIAL EDUCATION TUITION PAID TO CHARTER SCHOOLS
- CHARTER SCHOOL HISTORICALLY HAVE CLASSIFIED STUDENTS AS SPECIAL EDUCATION STUDENTS AFTER ENROLLING IN CHARTER SCHOOLS

SPECIAL EDUCATION ENROLLMENT PERCENTAGE



COST BURDEN DUE TO USING 16% SPECIAL EDUCATION ADM FOR TUITION CALCULATION

PDE-363 Year	Total Expenditures	Minus Total Deductions	Selected Expenditures	Estimated Average Daily Membership	Funding for Non-Special Education Students	Special Educaiton Expenditures	Minus Special Educaiton Deductions	Selected Expenditures	Special Educaiton Percentage	Estimated Average Daily Membership	Additional Tuiton for Special Educaiton Students	Total Special Education Student Tuition	Per ADM Savings Using Actual Special Education Percentage	Special Education Enrollment	Total Savings Using Actual Special Educaition Enrollment Percentage
2016/2017	202,158,061.00	70,513,923.00	131,644,138.00	18,147.951	7,253.94	33,508,843.00	2,728,026.00	30,780,817.00	16.00%	2,903.672	10,600.65	17,854.59			
2017/2018	223,232,577.33	77,442,193.42	145,790,383.91	18,348.321	7,945.71	36,598,771.43	3,166,207.89	33,432,563.54	16.00%	2,935.731	11,388.15	19,333.86			
2018/2019	261,767,990.00	99,909,092.00	161,858,898.00	18,444.753	8,775.34	41,797,365.00	3,691,496.00	38,105,869.00	16.00%	2,951.160	12,912.16	21,687.50			
2019/2020	282,962,011.00	114,175,628.33	168,786,382.67	18,444.753	9,150.92	48,081,934.59	5,230,651.89	42,851,282.70	16.00%	2,951.160	14,520.15	23,671.06			
2020/2021	297,944,258.00	113,228,185.00	184,716,073.00	18,886.691	9,780.22	55,360,022.00	5,405,582.87	49,954,439.13	16.00%	3,021.871	16,530.97	26,311.19			
2021/2022	309,381,537.00	128,875,973.27	180,505,563.73	18,886.691	9,557.29	62,793,694.64	14,078,430.34	48,715,264.30	16.00%	3,021.871	16,120.90	25,678.19			
2022/2023	357,072,838.00	178,875,992.00	178,196,846.00	18,886.691	9,435.05	64,257,253.00	15,747,862.00	48,509,391.00	16.00%	3,021.871	16,052.77	25,487.82			
2016/2017	202,158,061.00	70,513,923.00	131,644,138.00	18,147.951	7,253.94	33,508,843.00	2,728,026.00	30,780,817.00	16.50%	2,994.412	10,279.42	17,533.36	(321.23)	230.650	(74,092.13)
2017/2018	223,232,577.33	77,442,193.42	145,790,383.91	18,348.321	7,945.71	36,598,771.43	3,166,207.89	33,432,563.54	16.60%	3,045.821	10,976.53	18,922.24	(411.62)	236.117	(97,190.49)
2018/2019	261,767,990.00	99,909,092.00	161,858,898.00	18,444.753	8,775.34	41,797,365.00	3,691,496.00	38,105,869.00	17.40%	3,209.387	11,873.25	20,648.59	(1,038.91)	245.090	(254,626.40)
2019/2020	282,962,011.00	114,175,628.33	168,786,382.67	18,444.753	9,150.92	48,081,934.59	5,230,651.89	42,851,282.70	19.60%	3,615.172	11,853.18	21,004.10	(2,666.97)	267.352	(713,018.61)
2020/2021	297,944,258.00	113,228,185.00	184,716,073.00	18,886.691	9,780.22	55,360,022.00	5,405,582.87	49,954,439.13	20.90%	3,947.318	12,655.28	22,435.51	(3,875.68)	210.349	(815,245.62)
2021/2022	309,381,537.00	128,875,973.27	180,505,563.73	18,886.691	9,557.29	62,793,694.64	14,078,430.34	48,715,264.30	22.30%	4,211.732	11,566.56	21,123.85	(4,554.33)	229.086	(1,043,334.19)
2022/2023	357,072,838.00	178,875,992.00	178,196,846.00	18,886.691	9,435.05	64,257,253.00	15,747,862.00	48,509,391.00	22.80%	4,306.166	11,265.10	20,700.15	(4,787.67)	315.977	(1,512,792.98)

This data represents information obtained from the original PDE-363 calculations and demonstrates the need for revisions to the charter school law and the use of 16% as the special education enrollment factor.

COST BURDEN CONTINUED

PDE-363 Year	Estimated Average Daily Membership	Funding for Non-Special Education Students	Special Educaiton Percentage	Estimated Average Daily Membership	Additional Tuiton for Special Educaiton Students	Total Special Education Student Tuition	Per ADM Savings Using Actual Special Education Percentage	Special Education Enrollment	Total Savings Using Actual Special Educaition Enrollment Percentage
2016/2017	18,147.951	7,253.94	16.00%	2,903.672	10,600.65	17,854.59			
2017/2018	18,348.321	7,945.71	16.00%	2,935.731	11,388.15	19,333.86			
2018/2019	18,444.753	8,775.34	16.00%	2,951.160	12,912.16	21,687.50			
2019/2020	18,444.753	9,150.92	16.00%	2,951.160	14,520.15	23,671.06			
2020/2021	18,886.691	9,780.22	16.00%	3,021.871	16,530.97	26,311.19			
2021/2022	18,886.691	9,557.29	16.00%	3,021.871	16,120.90	25,678.19			
2022/2023	18,886.691	9,435.05	16.00%	3,021.871	16,052.77	25,487.82			
2016/2017	18,147.951	7,253.94	16.50%	2,994.412	10,279.42	17,533.36	(321.23)	230.650	(74,092.13)
2017/2018	18,348.321	7,945.71	16.60%	3,045.821	10,976.53	18,922.24	(411.62)	236.117	(97,190.49)
2018/2019	18,444.753	8,775.34	17.40%	3,209.387	11,873.25	20,648.59	(1,038.91)	245.090	(254,626.40)
2019/2020	18,444.753	9,150.92	19.60%	3,615.172	11,853.18	21,004.10	(2,666.97)	267.352	(713,018.61)
2020/2021	18,886.691	9,780.22	20.90%	3,947.318	12,655.28	22,435.51	(3,875.68)	210.349	(815,245.62)
2021/2022	18,886.691	9,557.29	22.30%	4,211.732	11,566.56	21,123.85	(4,554.33)	229.086	(1,043,334.19)
2022/2023	18,886.691	9,435.05	22.80%	4,306.166	11,265.10	20,700.15	(4,787.67)	315.977	(1,512,792.98)

- BY USING THE ACTUAL SPECIAL EDUCATION PERCENTAGE INCURRED BY THE READING SCHOOL DISTRICT, CHARTER SCHOOL TUITION COSTS WOULD HAVE BEEN **REDUCED BY NEARLY $4.5 MILLION OVER THE LAST 7 YEARS.**

BEF AND CHARTER SCHOOL WEIGHT ALLOCATION

Charter School Allocation per Basic Education Funding Formula									
School Year	Charter School Average Daily Membership	Student Weight (ADM x 0.2)	Median Household Income Index	Local Effort Compacity Index	Total CS Student Weight	Total Student Weighted ADM	Student Weighted Allocation for CS	Student Weighted Funding Allocation	Total Student Weighted Allocation for CS
2015/2016	1,057.174	211.435	1.98	1.84	769.13	111,557.24	0.69%	52.14	40,102.55
2016/2017	1,057.174	211.435	1.98	1.84	769.13	112,151.03	0.69%	120.52	92,695.81
2017/2018	989.206	197.841	2.00	1.83	724.53	114,122.02	0.63%	151.89	110,049.36
2018/2019	898.252	179.650	2.01	1.91	691.31	120,501.13	0.57%	182.88	126,426.51
2019/2020	943.548	188.710	1.98	1.87	698.93	115,640.25	0.60%	236.92	165,590.00
2020/2021	915.046	183.009	1.98	1.89	683.40	116,167.82	0.59%	268.44	183,453.05
2021/2022	897.875	179.575	1.92	1.80	620.26	104,774.61	0.59%	315.62	195,765.09
2022/2023	729.714	145.943	1.78	1.66	431.23	89,189.70	0.48%	522.22	225,197.86
2023/2024	695.095	139.019	1.74	1.64	397.78	85,292.84	0.47%	757.36	301,259.77

WEIGHTED VALUE VS. TUITION COSTS

	Tuition			Weight Value vs. Tuition Costs	
School Year	Non-Special Educaition	Special Education	Total Charter School Tuition	Total Student Weighted Allocation for CS ADM	Percent of Total Charter School Tuition
2010/2011	1,510,730.10	482,948.57	1,993,678.67	-	0.00%
2011/2012	3,766,253.17	1,554,670.75	5,320,923.92	-	0.00%
2012/2013	4,727,121.10	2,768,593.64	7,495,714.74	-	0.00%
2013/2014	5,847,718.41	4,097,430.13	9,945,148.54	-	0.00%
2014/2015	5,736,666.97	4,315,537.10	10,052,204.07	-	0.00%
2015/2016	5,470,491.97	4,193,525.42	9,664,017.39	40,102.55	0.41%
2016/2017	5,414,980.23	4,415,268.37	9,830,248.60	92,695.81	0.94%
2017/2018	5,777,590.93	4,774,618.66	10,552,209.59	110,049.36	1.04%
2018/2019	5,898,932.73	5,315,391.83	11,214,324.56	126,426.51	1.13%
2019/2020	5,937,126.05	6,328,507.91	12,265,633.96	165,590.00	1.35%
2020/2021	5,113,275.06	5,534,530.40	10,647,805.46	183,453.05	1.72%
2021/2022	4,452,024.61	5,884,573.32	10,336,597.93	195,765.09	1.89%
2022/2023	4,943,447.27	7,065,325.66	12,008,772.93	225,197.86	1.88%

- THE CURRENT WEIGHTING USED IN THE BASIC EDUCATION FORMULA DOES NOT PROVIDE A SIGNIFICANT FINANCIAL OFFSET AS COMPARED TO THE ORIGINAL CHARTER SCHOOL TUITION PREVIOUSLY PROVIDED.
- THE PRIOR REIMBURSEMENT HAD A TARGETED GOAL TO REACH 30% OF CHARTER SCHOOL TUITION COST, BUT THE CURRENT WEIGHTED ALLOCATION IS LESS THAN 2% FOR THE CURRENT YEAR.
- IF THE CHARTER SCHOOL REIMBURSEMENT OF 30% WOULD HAVE REMAINED IN EFFECT, RSD WOULD HAVE RECEIVED NEARLY $36,400,000 SINCE INCEPTION.

STRANDED COST

- STRANDED COSTS ARE THE COST THAT CANNOT BE ELIMINATED AFTER MAKING A CHANGE TO A PARTICULAR STRUCTURE.
- IT IS COMMON THOUGHT THAT DUE TO THE REDUCTION IN ENROLLMENT DUE TO CHARTER SCHOOLS, TEACHING OR ADMINISTRATIVE STAFF CAN BE REDUCED.
- BASED ON THE NUMBER OF SCHOOL BUILDING WITHIN THE READING SCHOOL DISTRICT, TEACHERS COULD NOT BE ELIMINATED WITHOUT SIGNIFICANTLY INCREASING CLASS SIZES FOR THE REMAINING STUDENTS.

CHARTER SCHOOL ENROLLMENT BY GRADE BY BUILDING - READING SCHOOL DISTRICT - MARCH 2023

Grade	10th & Green	10th & Penn	12th & Marion	13th & Green	13th & Union	16th & Haak	Amanda Stout	Lauer's Park	Millmont Elem	Northwest Area Elem	Riverside Elem	Tyson Schoener	**Total Elementary**	Central Middle	Northeast Middle	Northwest Middle	Southern Middle	Southwest Middle	**Total Middle School**	**RHS**	**Total Enrollment**
K		1	1	4	1	2	2	1	1	1	6	1	**21**								**21**
1		1	1		3	2	1	2	5	4	5		**24**								**24**
2	1	1		2	4	3	4	1	4	1	7		**28**								**28**
3	3	2	2	1	1	1	6	2	5	6	3	2	**34**								**34**
4	2	4		1	3	4	5	4	1	2	7		**33**								**33**
5														33	5	11	7	7	**63**		**63**
6														40	5	12	13	11	**81**		**81**
7														54	10	17	8	14	**103**		**103**
8														36	12	19	20	13	**100**		**100**
9																				**223**	**223**
10																				**205**	**205**
11																				**121**	**121**
12																				**55**	**55**
SS																				**8**	**8**
	6	9	4	8	12	12	18	10	16	14	28	3	**140**	163	32	59	48	45	**347**	**612**	**1,099**

SS - Super Senior - Fifth year senior special education student

STRANDED COST - ENLARGED

CHARTER SCHOOL ENROLLMENT BY GRADE BY BUILDING - READING SCHOOL DISTRICT - MARCH 2023

Grade	10th & Green	10th & Penn	12th & Marion	13th & Green	13th & Union	16th & Haak	Amanda Stout	Lauer's Park	Millmont Elem	Northwest Area Elem	Riverside Elem	Tyson Schoener	**Total Elementary**	Central Middle	Northeast Middle	Northwest Middle	Southern Middle	Southwest Middle	**Total Middle School**	**RHS**	**Total Enrollment**
K		1	1	4	1	2	2	1	1	1	6	1	**21**								**21**
1		1	1		3	2	1	2	5	4	5		**24**								**24**
2	1	1		2	4	3	4	1	4	1	7		**28**								**28**
3	3	2	2	1	1	1	6	2	5	6	3	2	**34**								**34**
4	2	4		1	3	4	5	4	1	2	7		**33**								**33**
5														33	5	11	7	7	**63**		**63**
6														40	5	12	13	11	**81**		**81**
7														54	10	17	8	14	**103**		**103**
8														36	12	19	20	13	**100**		**100**
9																				**223**	**223**
10																				**205**	**205**
11																				**121**	**121**
12																				**55**	**55**
SS																				**8**	**8**
	6	9	4	8	12	12	18	10	16	14	28	3	**140**	163	32	59	48	45	**347**	**612**	**1,099**

SS - Super Senior - Fifth year senior special education student

READING VIRTUAL ACADEMY

- READING VIRTUAL ACADEMY IS AN EXTENSION OF THE READING SCHOOL DISTRICT, THE TUITION FREE PROGRAM PROVIDES ONLINE EDUCATION FOR STUDENTS WHO EXCEL IN A NON-TRADITIONAL SETTING. THIS DYNAMIC BLENDED-LEADING PROGRAM PROVIDES FLEXIBLE PACING AND AN INDIVIDUALIZED LEARNING PLAN.
- READING VIRTUAL ACADEMY ENROLLMENT
  - EACH GRADE LEVEL IN RVA IS CAPPED AT A LIMITED NUMBER OF STUDENTS.
  - NEW STUDENTS WILL ONLY BE ACCEPTED IF SLOTS ARE AVAILABLE.
  - RVA IS OPEN TO GRADES 1-12 ONLY.
- RVA GRADES 1-8
  - FULL-DAY REMOTE LEARNING WITH A COMBINATION OF CERTIFIED READING SCHOOL DISTRICT TEACHERS, LIVE LESSONS, AND ASYNCHRONOUS WORK
  - HELD DURING THE REGULAR SCHOOL DAY
- RVA GRADES 9-12
  - VIRTUAL LEARNING WITH EDGENUITY COMPUTER COURSES (NO LIVE INSTRUCTION)
  - COURSES CAN BE COMPLETED ANY TIME OF DAY

READING VIRTUAL ACADEMY
ELIGIBILITY REQUIREMENTS

- THE FOLLOWING DATA WILL BE REVIEWED TO ASSIST READING SCHOOL DISTRICT STAFF IN DETERMINING A CHILD'S ELIGIBILITY FOR ENROLLMENT IN THE READING VIRTUAL ACADEMY:
  - **MOST RECENT REPORT CARD GRADES** - STUDENTS WHO ARE CURRENTLY FAILING THEIR MAJOR SUBJECTS WILL NOT BE CONSIDERED FOR RVA
  - **CURRENT READING LEVEL** - STUDENTS WILL BE EXPECTED TO BE ABLE TO READ AT OR CLOSE TO THEIR ASSIGNED GRADE LEVEL
  - **ATTENDANCE RATE** - CONSISTENT ATTENDANCE WILL BE EXPECTED
  - **SPECIALIZED SERVICES**** (IE: SPECIAL EDUCATION, ESL, CREDIT RECOVERY, ETC.) - STUDENTS WITH IEPS/504 PLANS WILL BE CONSIDERED AFTER A NOREP/NORA/504 MEETING HAS BEEN HELD. STUDENTS IN CREDIT RECOVERY WILL BE CONSIDERED AFTER A CORE TEAM MEETING HAS BEEN HELD. ENGLISH LEARNERS WILL BE EXPECTED TO MEET A CERTAIN LEVEL OF ENGLISH PROFICIENCY TO BE CONSIDERED.

READING VIRTUAL ACADEMY ELIGIBILITY REQUIREMENTS

- THE FOLLOWING DATA WILL BE REVIEWED TO ASSIST READING SCHOOL DISTRICT STAFF IN DETERMINING A CHILD'S ELIGIBILITY FOR ENROLLMENT IN THE READING VIRTUAL ACADEMY (CONTINUED):
  - FOR HIGH SCHOOL STUDENTS, **REVIEW OF CREDITS AND GRADUATION REQUIREMENTS**
  - **EVIDENCE THAT THE STUDENT POSSESSES THE TIME MANAGEMENT SKILLS AND DISCIPLINE** TO ACTIVELY AND SUCCESSFULLY PARTICIPATE IN VIRTUAL INSTRUCTION INCLUDING, BUT NOT LIMITED TO: REGULARLY LOGGING INTO SCHEDULED CLASSES, COMPLETING AND SUBMITTING ASSIGNMENTS BY EXPECTED DUE DATES, AND ADHERING TO BEHAVIORAL EXPECTATIONS SET BY THE TEACHER/INSTRUCTOR.
  - STUDENTS WHO DO NOT MEET THE ELIGIBILITY REQUIREMENTS WILL NOT BE ENROLLED INTO RVA.

RVA OPERATING COSTS

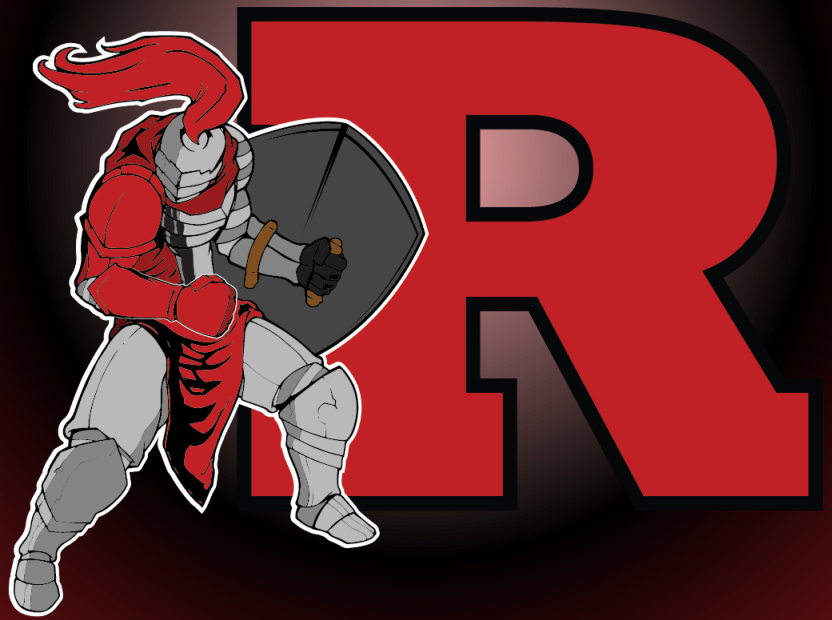
Account	BUDGET 2022-2023	ACTUAL -YTD 2022-2023	ACTUAL 2021-2022	ACTUAL 2020-2021	ACTUAL 2019-2020	ACTUAL 2018-2019
Salaries & Wages	1,091,694.25	482,870.44	552,107.14	184,970.77	166,308.35	71,616.66
Benefits	716,796.71	315,049.66	362,688.37	118,261.05	94,199.02	47,382.34
Technical Services	13,000.00	-	8,760.00	300.00	16,000.00	-
Property Services	5,480.77	2,351.02	2,107.40	1,678.70	1,686.93	2,373.77
Purchase Services	520.00	-	73.04	-	-	-
Supplies & Technology	311,106.00	210,601.51	232,167.33	523,852.08	208,036.76	134,900.52
Indirect Cost Allocation	476,907.29	225,424.60	275,002.03	184,880.96	115,479.88	102,509.31
Total Costs	**2,615,505.03**	**1,236,297.22**	**1,432,905.31**	**1,013,943.56**	**601,710.93**	**358,782.60**
Average Daily Membership	622.52	622.52	579.39	536.13	483.60	458.39
Costs per ADM	**4,201.48**	**1,985.96**	**2,473.13**	**1,891.23**	**1,244.23**	**782.70**

- THE OPERATING COSTS PRESENTED DO NOT ACCOUNT FOR TEXT BOOKS USED BY K-8 STUDENTS AS THEY ARE PROVIDED BY THE STUDENTS HOME BUILDING
- THE INDIRECT COST ALLOCATION IS BASED ON THE UNRESTRICTED INDIRECT COST RATE APPROVED BY PDE AND COVERS OVERHEAD AND DISTRICT LEADERSHIP ALLOCATIONS (SUPERINTENDENT, BUSINESS OFFICE SUPPORT, INFORMATION TECHNOLOGY, ETC.)

HOUSE DEMOCRATIC POLICY COMMITTEE

Questions

One vision. All students. One Reading.



Pennsylvania Cyber Charters are Stockpiling Funds that Should be Spent on Students or Returned to Taxpayers

Executive Summary

Cyber charter surpluses are substantial, growing, and unregulated. This issue matters to school districts that are responsible for paying public cyber charter tuition and taxpayers who ultimately foot the bill. State law already prevents school districts from stockpiling excessive reserves, and Pennsylvania's cyber charters should be required to do the same. Cybers should either spend their surplus balances on student improvement or return the money to contributing school districts.

The PA Charter Performance Center analyzed the newly released financial reports for the 2020-21 school year to quantify changes in unrestricted surpluses for Pennsylvania's 14 statewide cyber charter schools and assessed the impact on students and taxpayers. Key findings include:

+ Pennsylvania's 14 cyber charters are sitting on over $164 million in unrestricted reserves in the school year (SY) 2020-21. The surpluses, also called "unassigned fund balances," more than doubled compared to 2019-20 and skyrocketed seven-fold as compared to SY2018-19.
+ This increase was unique to cyber charters. Unassigned fund balances grew nearly 10 times faster in 2020-21 for cyber charters (+119%) than school districts (+12%).
+ The spike in surpluses cannot be explained by rising cyber charter enrollment. Cyber charter surpluses rose nearly 647% during this time period – over ten times the 63% increase in enrollment.
+ Using the standards applied to Pennsylvania school districts, 11 of 14 cyber charters are holding excessive surpluses.

These unrestricted, uncommitted resources could have been invested in students or returned to taxpayers but, absent reform, Pennsylvania cyber charter schools are not subject to the same oversight and accountability as public schools.

The time has come to update PA Charter School Law. This report makes the case for change and concludes with a set of policy recommendations.

children FIRST
THE ADVOCATE FOR KIDS

PA Charter Performance Center

June 2022

How Do We Measure A Cyber Charter School's Overall Financial Position?

Every year, cyber charter schools – along with school districts and other local educational agencies – are required to file Annual Financial Reports (AFRs) with the PA Department of Education. AFRs must be prepared in compliance with Government Accounting Standards Board (GASB) principles and are the most complete statement of a school's finances using data provided by the schools themselves.

One of the key measures of a school's financial position is its "fund balance" or the difference between assets (what a school owns) and liabilities (what a school owes). Financial experts generally recommend that an organization maintain a fund balance of 5% to 10% to plan for future growth and guard against unforeseen events.

Resources in a school's fund balance are further categorized as committed, assigned, and unassigned. For example, funds for a planned construction project would be designated as "committed" to a specific purpose. In contrast, "unassigned fund balance" is the portion of a cyber charter's fund balance that is not "categorized as restricted, committed or assigned."[1] In other words, it functions as a surplus.

There are no legal or regulatory restrictions on how cyber charters can spend these surpluses which include, but are not limited, to cash. Equally important is the fact that the PA Charter School Law does not place any caps or limitations on how much surplus a charter can accumulate.

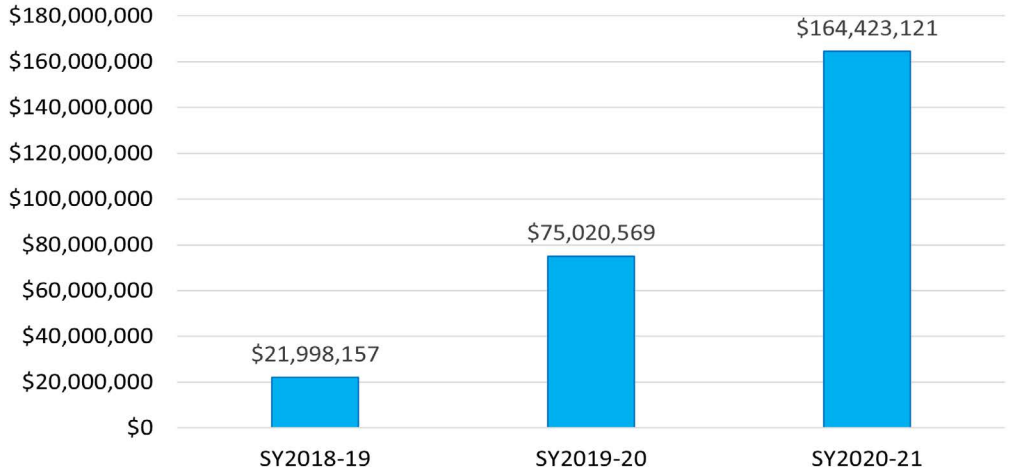
These unregulated, unreserved, and undesignated funds provide a good proxy for a cyber charter school's overall financial position. The PA Charter Performance Center previously analyzed data through SY2019-20 and found that the state's cyber charter sector was sitting on $75 million in unrestricted reserves, raising questions about accountability to taxpayers and commitment to student performance.[2] New data shows that these surpluses more than doubled in SY2020-21.

PA Charter School Law does not place any caps or limitations on how much surplus a charter can accumulate. New data shows that these surpluses more than doubled in SY2020-21

Cyber Charters Continue To Accumulate Huge, Unrestricted Reserves

Pennsylvania's cyber charters are sitting on a growing stockpile of funds. Financial data provided by the cyber charter schools in their 2020-21 Annual Financial Reports shows the total surplus for PA's 14 cyber charters doubled to $164 million last year from $75 million in SY2019-20. This trend is accelerating. In fact, the total surplus grew seven-fold over the last two years from $22 million to $164 million.

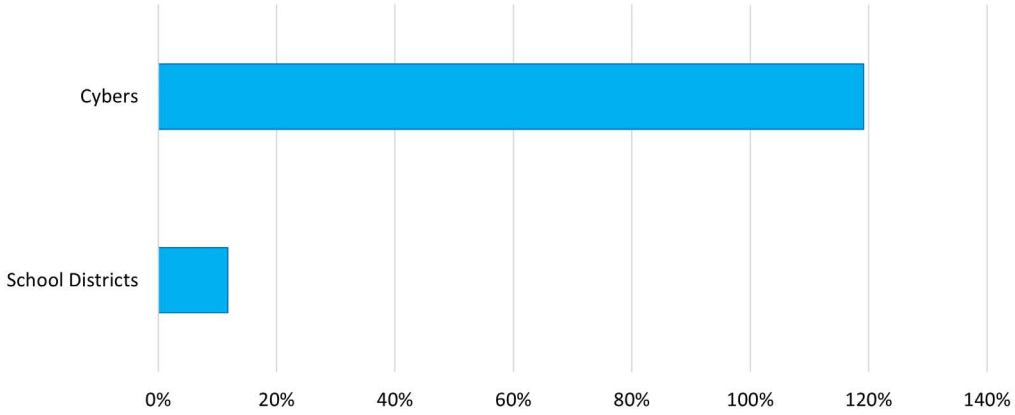
Chart 1: Cyber Surpluses More Than Doubled In 2021, Up Seven-Fold Over Last Two Years



Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

What accounts for this virtual explosion of unrestricted resources for cyber charters over the last two years? Comparing data for Pennsylvania's 500 school districts with its 14 cyber charter schools makes it clear that school districts did not experience the same spike. In fact, cyber charter unassigned fund balances grew by 119% in SY2020-21 or nearly ten times faster than school districts, which only grew by 12%. Clearly, the tuition payments that cyber charter schools receive exceed their actual operating costs, accounting for the huge surpluses they are amassing.

Chart 2: Cyber Surpluses Grew 10 Times More Than School Districts, SY2021 v SY2020



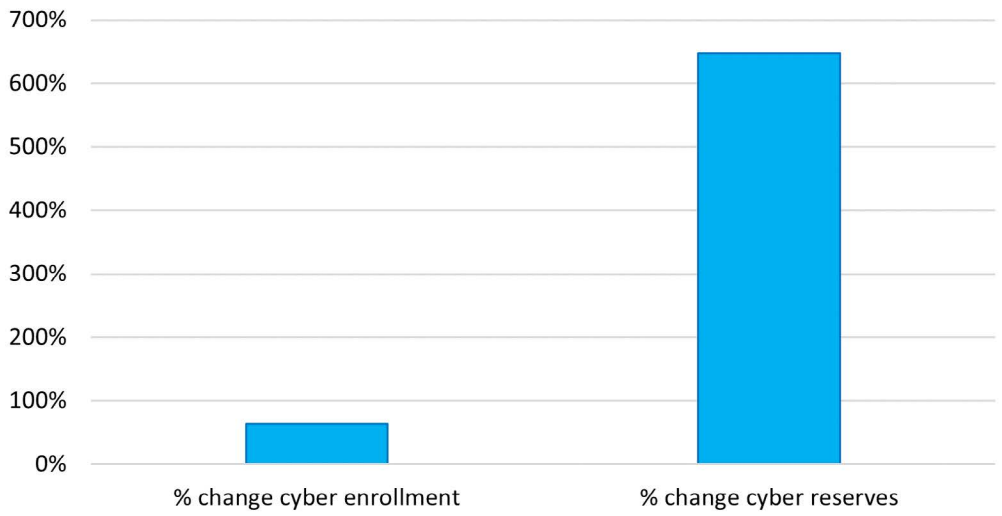
Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Cyber Surpluses Grew 10 Times More Than School Districts, SY2021 v SY2020			
	SY21	SY20	%Change
School Districts	$2,207,217,298	$1,974,518,545	12%
Cyver Charters	$164,423,121	$75,020,569	119%

Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Nor does adjusting for the sharp rise in cyber charter enrollment during the pandemic explain the huge increase in cyber charter surpluses. Cyber charter enrollment rose by 63% between SY2018-19 (the year before the pandemic) and SY2020-21. If the per-student tuition that school districts send to cyber charters were in line with the actual cost of educating a new student, cybers would not have built up substantial new surpluses over the last two years. The fact is that cyber charter surpluses rose nearly 647% during this time period – over ten times the 63% increase in enrollment. The spike in surpluses suggests that cybers elected not to spend available additional resources to improve student learning and instead banked the funds away.

Chart 3: Cyber Reserves Grew 10 Times More than Enrollment, 2019 to 2021



Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21 and Public School Enrollments, 2018-19 and 2020-21

Improving student performance should be a priority for the cyber sector. Every one of Pennsylvania's statewide cyber charters has been identified as needing improvement under the state's ESSA School Improvement and Accountability plan, placing them among the state's lowest performing schools. In addition, 14 cyber charters scored below the statewide average on the latest statistically reliable English and math assessments in SY2018-19.[3] (Only one in four (24%) of cyber students took the state assessments in SY2020-21, making the test results unreliable and leaving parents and educators without the data they need to judge cyber charter performance.)

PA Cyber Has A Long History of Amassing Unrestricted Reserves

The figures for some individual cyber charters are shocking. For example, Pennsylvania Cyber amassed a $63 million surplus last year, a $31 million increase in a single year. As a point of reference, $63 million is nearly two-thirds the Level Up funding the legislature appropriated for the 2021-22 school year.

Table 1: Pennsylvania Cyber Ranks First In Unrestricted Reserves For Last Three Years			
	2018-19 Unassigned Fund Balance 0850	2019-20 Unassigned Fund Balance 0850	2020-21 Unassigned Fund Balance 0850
Pennsylvania Cyber CS	$13,768,846	$32,483,919	$63,308,393
Reach Cyber CS	$4,668,127	$12,577,339	$31,250,087
Insight PA Cyber CS	$2,282,367	$1,440,970	$21,552,509
Pennsylvania Leadership CS	$1,311,106	$16,253,358	$14,171,108
Agora Cyber CS	-$7,917,955	-$6,077,179	$11,269,163
Esperanza Cyber CS	$1,857,688	$3,794,731	$5,982,636
ASPIRA Bilingual Cyber CS	$988,555	$1,499,143	$4,520,292
Achievement House CS	$1,025,045	$4,644,765	$2,938,826
Pennsylvania Virtual CS	$2,444,236	$4,644,242	$2,696,207
Central PA Digital Learning Foundation CS	$335,064	$397,058	$2,301,827
Pennsylvania Distance Learning CS	$997,153	$1,436,065	$1,986,047
21st Century Cyber CS	$17,762	$628,015	$1,439,722
Commonwealth Charter Academy CS	$220,163	$904,877	$608,162
Susq-Cyber CS	$0	$393,266	$398,142
TOTAL	$21,998,157	$75,020,569	$164,423,121

Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Pennsylvania Cyber is the second largest cyber charter in the commonwealth with 10,500 students, making it approximately the same size as the Lancaster School District with 10,200 students. While the educational missions are the same, the Lancaster School District posted a $17.2 million unassigned fund balance in SY2020-21 – or just 27% of Pennsylvania Cyber's $63.3 million for the same year.

Pennsylvania Cyber was audited by two successive PA Auditor Generals in 2012 (5 findings) and 2016 (8 findings). One of the issues raised in the 2012 audit[4] concerned the size of the cyber charter's "unreserved fund balance" which at the time stood at $13 million. The Auditor General described this as "the highest amount among all operating charters and cybers."

While the Auditor General did not question Pennsylvania Cyber's intentions or financial planning, he noted that the "lack of specific reporting related to the size of these accounts and how they are expended means that the cyber school does not have to publicly account for their use."

The Auditor General went on to describe how this failure put local taxpayers at risk:

> Since charter and cyber charter schools are funded under the law largely by tuition payments from school district, including local taxpayer money, withstudents attending the charter or cyber charter school, the need for accountability and monitoring of these discretionary funds is heightened. Any misuse of these "discretionary" unreserved fund balances could result in financial disaster for the school and in a loss of state and local taxpayer money intended for public education.[5]

Ten years after this audit, little has changed. Pennsylvania Cyber's unassigned fund balance has grown from $13 million to $63 million and remains the largest in the cyber sector. Auditor General DeFoor, however, has gone in a different direction from his predecessors by dismantling the Bureau of School Audits and issuing a letter that, due to limited staff resources, his office would not be opening an audit into any cyber charter school.[6] As a result, there is virtually no protection for taxpayers and nothing that requires to cyber charters to ensure that taxpayer funds are expended for educational purposes.

Most Cyber Charters Are Holding Surpluses That Exceed The 8% Limit for School Districts

Pennsylvania state law (24 PS §6-688) limits the amount of unassigned fund balance to 8% for a school district whose expenditures exceed $19 million if the district is going to raise taxes. The underlying rationale behind the 8% threshold is to prevent a district from building up excessive reserves and to protect local taxpayers from unnecessary property tax increases. Because cyber charter schools are exempt from these guidelines, there is currently no statutory limit on the amount of surplus a cyber charter school can generate or rules on the use of excessive surpluses.

Absent legal limits on the amount of fund balance that a cyber charter can accumulate, where do most cyber charters fall with respect to the 8% standard? The PA Charter Performance previously analyzed fund balance data for SY2015-16 to SY2019-20 and found that cyber fund balances as a percentage of total expenditures exceeded the 8% benchmark over half (52%) of the time.[7]

Data for the 2020-21 school year show that the problem of excessive surpluses has accelerated. Last year, 11 of 14 cyber charters reported unassigned fund balance in excess of 8% of total expenditures. The unrestricted reserves for three cyber charters – ASPIRA Bilingual Cyber, Esperanza Cyber, and Central PA Digital Learning Foundation – exceeded 50% of expenditures. Insight PA Cyber and Pennsylvania Cyber reported unassigned fund balances over 40% of total expenditures.

Table 2: 11 Cyber Charters Reported Reserves That Exceed 8% Benchmark For School Districts			
	SY 2020-21 Total Expenditures	2020-21 Unassigned Fund Balance 0850	Unassigned Fund Balance as % of Expenditures
ASPIRA Bilingual Cyber CS	$8,018,637	$4,520,292	56.4%
Esperanza Cyber CS	$10,646,009	$5,982,636	56.2%
Central PA Digital Learning Foundation CS	$4,265,697	$2,301,827	54.0%
Insight PA Cyber CS	$49,688,906	$21,552,509	43.4%
Pennsylvania Cyber CS	$147,673,985	$63,308,393	42.9%
Reach Cyber CS	$97,301,849	$31,250,087	32.1%
Pennsylvania Leadership CS	$48,531,739	$14,171,108	29.2%
Susq-Cyber CS	$1,523,487	$398,142	26.1%
Achievement House CS	$12,148,888	$2,938,826	24.2%
Pennsylvania Distance Learning CS	$18,447,393	$1,986,047	10.8%
Agora Cyber CS	$106,285,036	$11,269,163	10.6%
21st Century Cyber CS	$22,229,679	$1,439,722	6.5%
Pennsylvania Virtual CS	$41,689,186	$2,696,207	6.5%
Commonwealth Charter Academy CS	$313,925,560	$608,162	0.2%

Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21 and Expenditure Detail, 2011-12 to 2020-21

Under Pennsylvania's cyber charter funding system, taxpayers are on the hook for every new dollar of surplus that cybers accumulate. Unlike most states that fund cyber charters at the state level, cyber charters in Pennsylvania are funded by local school districts which in turn are heavily reliant on local property taxes. It is one thing to ask taxpayers to support higher taxes to enhance the educational opportunities for local students. It is another proposition entirely when their tax dollars end up as unregulated, unreserved, and undesignated funds controlled by statewide cyber charter schools.

Taxpayers are on the hook for every new dollar of surplus that cybers accumulate.

Recommendations

Compared to the 27 other states that permit cyber charters, Pennsylvania has some of the weakest systems to ensure students and taxpayers are getting their money's worth.[8] The Pennsylvania General Assembly and the PA Department of Education (PDE) should enact four specific measures to prevent this financial stockpiling and stem the flow of taxpayer dollars into cyber charter bank accounts.

1. Adopt statutory limits on cyber charter fund balances. The Pennsylvania School Code already caps the amount of unassigned fund balance that a school district can accumulate to 8% as a form of taxpayer protection. The same logic should apply to preventing cyber charters from stockpiling excessive fund balances.

The Commonwealth should adopt new guidelines that require cybers with excessive surpluses to refund payments to contributing school districts and/or spend unassigned resources on student performance. Cybers that fail to meet these stricter standards should be subject to restrictions on new state grants or local revenue.

Several fund balance bills have been introduced in recent years. In the 2022 legislative session, House Bill 314 (Rep. DeLuca) would prohibit payments to charter or cyber charter schools unless those schools have adopted budgets that include an estimated unreserved, undesignated fund balance less than 5% of their total budgeted expenditures. Similarly, in the 2019-20 regular session, HB 1329 (Rep. Carroll) proposed bringing public charter schools in line with school districts by imposing the same limits on the unassigned fund balances that charter schools may accumulate. This bill required public charter schools to refund unassigned fund balances in excess of the limit on a pro rata basis to all school districts that paid tuition to the charter school entity in the prior school year.

2. Audit every cyber charter every three years. According to reporting by the Scranton Times-Tribune, six of fourteen cyber schools have never been audited by the state and others are severely behind schedule. Commonwealth Charter Academy, for example, the state's largest cyber charter with a $270 million budget, was last audited in 2012. The PA Auditor General Timothy DeFoor should prioritize these overdue reviews, focusing on the cybers with the largest budgets. Instead, the PA Auditor General has chosen to dismantle the Bureau of School Audits and has issued a letter that, due to limited staff resources, his office would not be opening an audit into any cyber charter.

Reversing course would be an opportunity for Auditor General DeFoor to demonstrate his political independence. The "Tim DeFoor for Auditor General campaign" received over $1.4 million in campaign contributions from the Commonwealth Leaders Fund in the 2019-2020 cycle, a remarkable 79% of all contributions received. School choice proponent Jeff Yaas and his Students First PAC are major contributors of the Commonwealth Leaders Fund.

3. The PA Department of Education should make better use of the charter school renewal process as a tool to improve cyber performance. Pennsylvania's Charter School Law requires PDE to conduct a comprehensive review process prior to granting a five-year renewal of a cyber charter. The purpose of this process is to enable schools to receive timely feedback and implement corrective action to improve student performance. PDE can also revoke or non-renew the charters of persistently underperforming schools.

Currently 11 of 14 cyber charter schools are overdue to have their charters renewed, including three of the five largest cyber charter schools (Commonwealth Charter Academy, Agora Cyber, and PA Leadership). This means that two out of three cyber students last year were enrolled in a school that was operating beyond the charter's end date. Technically, these charters remain valid until PDE renews or initiates revocation procedures and such procedures are exhausted. In practice, the backlog of reviews is a missed opportunity to use the renewal process as a tool to improve cyber student performance. PDE has begun work on five renewals but has failed to materially reduce the backlog in the last year.

4. Pass cyber charter funding reform. Legislation in both chambers (House Bill 272 and Senate Bill 27) would standardize cyber charter tuition statewide for non-special education students, and require charter schools to use the criteria in the Special Education Funding Formula – the same criteria used by all district-run schools – to calculate special education tuition. According to PDE, these two measures would save school districts $373 million annually. The magnitude of the excess fund balances documented in this report strengthens the case for tuition reform.

While both bills remain stuck in committee, there has been some notable progress at building bipartisan support in the last year. House Bill 272 currently boasts 70 co-sponsors, including 20 members from the Republican side of the aisle. This is evidence of a growing recognition that charter school funding reform is a taxpayer issue, not a partisan one.

The bottom line is that cyber charters are stockpiling dollars that should either be used to improve student outcomes or be returned to taxpayers. As one education observer summarized, "cybers are not subject to the same kind of oversight and accountability that public schools are, and there is no way to characterize this non-regulation as beneficial to students – it is, in fact, the exact opposite."[9]

Endnotes

1. Pennsylvania Department of Education Accounting Bulletin #2010-01: Implementation of GASB Statement #54: Fund Balance Reporting.

2. PA Charter Performance Center, A New Look at Cyber Charter Fund Balances, June 2021. https://www.childrenfirstpa.org/report/a-new-look-at-cyber-charter-fund-balances/

3. Ibid.

4. Pennsylvania Cyber Charter School, Beaver County, Pennsylvania, Performance Audit Report (December 2012).

5. Ibid.

6. https://edvoterspa.org/wp-content/uploads/2022/06/Response-to-Susan-Spicka-Ltr-5.23.22.pdf

7. PA Charter Performance Center, A New Look at Cyber Charter Fund Balances, June 2021. https://www.childrenfirstpa.org/report/a-new-look-at-cyber-charter-fund-balances/

8. https://www.childrenfirstpa.org/report/pa-disconnect-in-cyber-charter-oversight-and-funding/

9. https://curmudgucation.blogspot.com/2022/01/pa-one-more-cyber-school-regulatory.html

Children First, formerly known as Public Citizens for Children and Youth (PCCY), serves as the leading child advocacy organization working to improve the lives and life chances of children in southeastern Pennsylvania.

Children First undertakes specific and focused projects in areas affecting the healthy growth and development of children, including child care, public education, child health, juvenile justice, and child welfare.

Through thoughtful and informed advocacy, community education, targeted service projects, and budget analysis, Children First watches out and speaks out for children and families.

Children First serves the families of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties as well as children across the Commonwealth. We are a committed advocate and an independent watchdog for the well-being of all our children.

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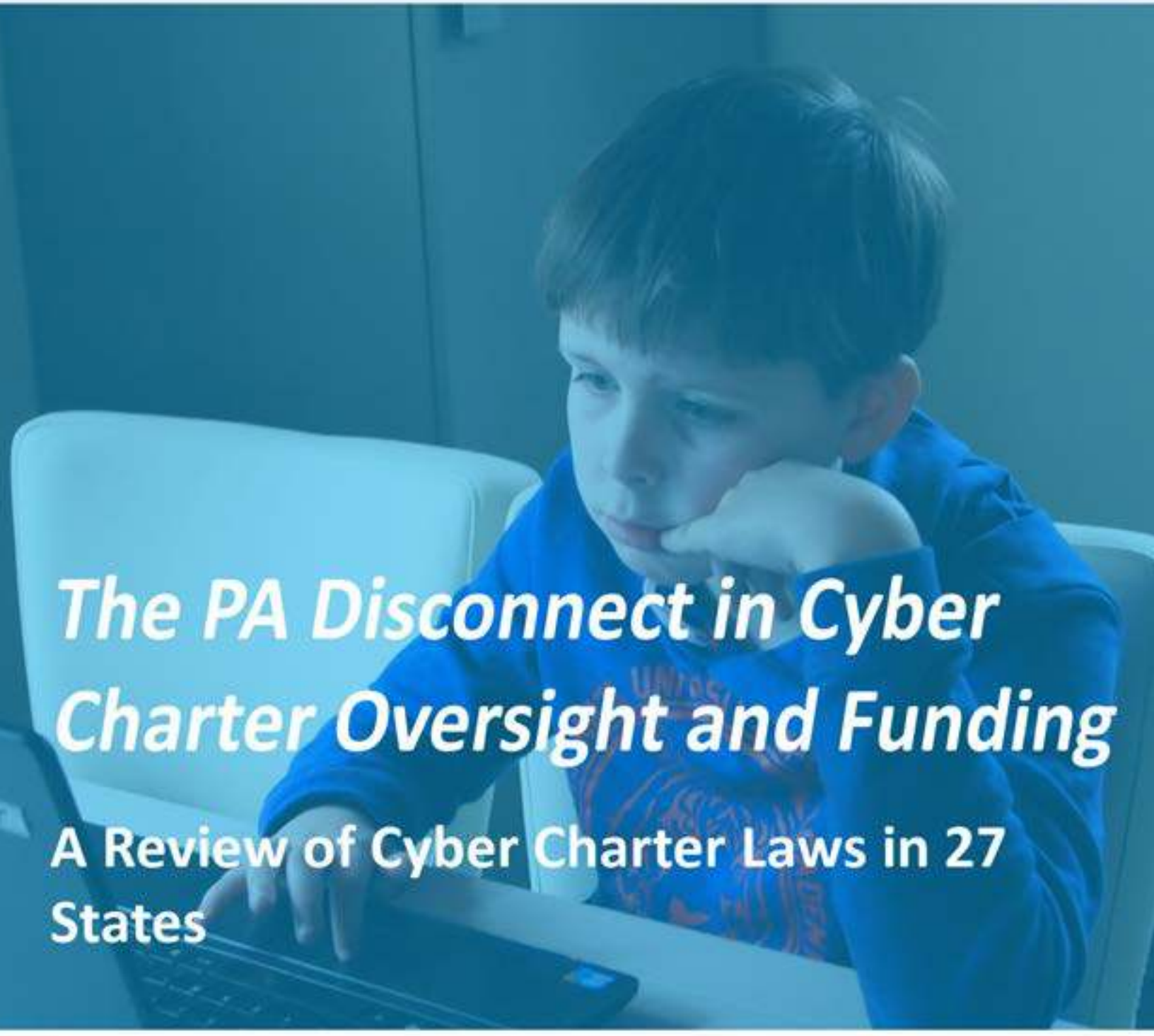
Children First
990 Spring Garden Street
Suite 200
Philadelphia, PA 19123
215-563-5848

A Children First Education Report



The PA Disconnect in Cyber Charter Oversight and Funding

A Review of Cyber Charter Laws in 27 States

January 2022

PA Charter Performance Center

children FIRST
THE ADVOCATE FOR KIDS

This report was prepared by the PA Charter Performance Center of Children First:

- ML Wernecke, Charter Performance Center Director
- Tom Brown and Rosa Parks-Green, legal research
- Donna Cooper, Executive Director, Children First
- Steven Fynes, Layout & Design, Children First

For more information about the PA Charter Performance Center visit:

childrenfirstpa.org/charterperformancecenter

PA Charter Performance Center

The PA Charter Performance Center of Children First improves the quality of education, especially for at-risk students, by producing unbiased, accurate and timely information that will build momentum for the adoption of sound state-level charter school policy.

Charter schools are educating a growing share of Pennsylvania's K-12 students. Last year over 169,000 students attended a Pennsylvania charter school, more than double the number since 2010. Low-income and at-risk students are more likely than other students to enroll in charters. While only 16% of district schools are located in high poverty areas, 58% of brick and mortar charter schools are operating in high poverty census tracts. This raises significant equity issues about who attends charters and how are they doing.

While enrollment is growing, student learning is not keeping pace. The most recent assessments show that 78% of 3rd through 8th grade charter students failed their Math PSSA and 56% failed English Language Arts. Over six in ten 11th graders attending charter schools failed the Algebra Keystone Exam and 45% failed Literature. More concerning is the fact that every one of Pennsylvania's 14 cyber charters has been identified as needing some level of support and improvement under the state's accountability system.

Absent unbiased, accessible information, there can be no accountability to boost charter school performance or close poorly performing operators. The Center seeks to close this gap by delivering reliable information on school performance for charters and district run schools to advance the policy conversation in Harrisburg and help parents make the best decisions for their children.

The work of the Center is made possible by a generous donation from the Ivywood Foundation.

Contents

Executive Summary

Pennsylvania is the cyber charter capital of the nation. Enrollment in Pennsylvania cyber charter schools mushroomed by 59% to 60,900 full-time students in the 2020-21 school year or nearly triple the size of the Pittsburgh School District. Parental concerns about whether schools would open and stay open during the initial year of the pandemic were a major factor behind the surge in enrollment. The persistence of COVID and its multiple variants means that this trend is likely to continue, especially in light of pervasive advertising on TV and other media by cyber charter schools.

This growth – and the resulting impact on local school districts – was not anticipated in 2002 when Pennsylvania's Charter School Law was amended to permit cyber charter schools. Despite the obvious differences between virtual learning and in-person classrooms, the law carried over the funding formula for brick and mortar charter schools to cyber charters. That approach might have made sense in 2002 when the numbers of students and schools were small and there were few models from other states. Today, however, the unforeseen growth of cyber charters is a leading cause of pressure on school budgets and local taxpayers.

The numbers tell the story. Pennsylvania Association of State Business Officials (PASBO) estimates that cyber charter schools received $980 million dollars in taxpayer-funded tuition payments in the 2020-21 school year. This amount is more than three times the increase in basic education funding that the legislature appropriated for all 500 school districts. In addition, researchers from Temple University's Public Policy Lab project that charter fees will soar by $1.7 billion by 2025. While this total includes fees to cybers and brick and mortar charters, last year 99.7% of Pennsylvania's charter enrollment growth occurred in virtual charter schools, making cybers accountable for virtually all the charter school-related cost increases to school districts and local taxpayers.

Last year, 99.7% of the Pennsylvania's charter enrollment growth occurred in virtual charter schools, making cybers accountable for virtually all the charter school-related cost increases to school districts and local taxpayers.

Further, there is an abundance of evidence that cyber charters have had a profound and negative impact on student achievement in Pennsylvania. The undisputable fact is that all 14 of Pennsylvania's statewide cyber charter scored below the statewide average on the 2018-2019 English and math assessments and all 14 have been identified as needing support under the state's ESSA School Improvement and Accountability plan.

A root cause of the problem is that Pennsylvania's Charter School Law lacks teeth when it comes to oversight and accountability. To the extent that there are standards in the law, there is little consequence for not meeting them. Legislators from both parties have proposed charter school bills with the intent of boosting student achievement by improving oversight and accountability. None of these bills, however, link funding reform to performance outcomes as is the case in many other states. These states recognize that funding reform can be a vehicle to improving school quality, not just altering balance sheets.

Despite growing calls for charter school funding reform, Pennsylvania's Charter School Law has remained unchanged for nearly a quarter century. Other states have not stood still. This report reviews the funding frameworks from the 27 other states that permit full-time cyber charter schools to identify opportunities for Pennsylvania to adopt structural practices that will raise performance and improve oversight. Lessons that Pennsylvania can learn from other states fall into three major categories.

1) Make the most of resources already devoted to virtual learning

- **Stop paying twice.** Even before the pandemic, over 90% of school districts offer online educational programs staffed by state-certified teachers and most districts gained new capacity since March 2020. Taxpayers should not have to pay for redundant systems. Public funding for online charter schools should be prohibited if a student's home district already offers an online education program whose educational track record is as good or better than the charter school.

- **Create a state virtual school as a centralized source of online courses, curriculum, and supports.** In addition to delivering online courses to full-time or part-time students, state virtual schools can be a centralized source of curriculum, and other supports for online learning. Twenty states have already created state virtual schools with other states in the pipeline. State virtual schools can serve as a public good by providing courses and resources to school districts and cyber charter schools, wringing costs out of the system in the process.

- **Audit cyber charters for enrollment and financial performance on an annual basis.** Recent enrollment scandals have generated multimillion judgements against cyber operators in California Indiana, and Ohio. Unlike these states, Pennsylvania's cyber charter schools are not subject to regular reviews by the state auditor. Too much is at stake to continue this practice. Pennsylvania should establish a statutory requirement for annual audits.

2) Improve Pennsylvania's funding mechanism to create greater oversight

- **Align cyber tuition rates with the actual costs of providing an online education.** Numerous studies confirm that the cost of educating a student at a cyber charter school is 25% to 30% below the comparable cost at a brick and mortar school. There is no reason that Pennsylvania school districts – or local taxpayers – should pay more tuition for a seat at a cyber charter school than is dictated by actual costs.

- **Establish a uniform, statewide cyber tuition rate.** Currently, every cyber charter school receives a different tuition rate from Pennsylvania's 500 school districts, with some districts paying more than a 140% premium for the exact same educational program. Legislation that would create a statewide cyber tuition rate is gaining bipartisan support among rank and file members of the legislature and would address this inequity.

- **Adopt a pay for performance system to link funding to measurable student outcomes.** Currently, school districts make a per student tuition payment for every student who enrolls in a cyber charter school regardless of how much that student actively participates or learns. Whether or not a student logs in should not be the key metric. Pennsylvania should follow the lead of states like Florida, Minnesota, New Hampshire Texas, and Utah and pay its cyber charter schools based on content mastery or course completion.

- **Create a Requests for Proposal (RFP) system for new applicants to promote quality and align growth.** Pennsylvania should replace the current system – where applicants can propose new cyber charter schools regardless of demand for more seats – with a new model based on an RFP, as is the norm for other state agencies. A more competitive process would allow the Department to award a charter to the strongest applicant most capable of raising the quality of online education.

3) Make funding reform a core part of comprehensive charter school legislation to give students greater access to high quality schools

- **Link funding reform to efforts to improve quality.** In 2017, Children First (formerly PCCY) published *Expanding High Quality Charter School Options*[1] and created a framework to:
  - Approve only high quality applicants
  - Let high quality charters grow
  - Protect students and taxpayers from failure by closing failing charter schools
  - Give students stability by establishing predictable criteria for reviewing charter school applications and renewal

Legislative reform based on these principles will give students greater access to high quality charter schools in part by directing funding to schools that are performing best.

Advancing any of these recommendations will require legislative action. While many charter funding reform bills have been introduced in recent years, few have advanced. One option would be to take a page out of the playbook used to modernize K-12 and special education funding and for the legislature to create a Cyber Charter School Funding Advisory Commission. Modeled on the successful Basic Education and Special Education Funding Commissions, the cyber funding commission would be made up of legislators from both parties and representatives of the Administration and would by charged with recommending changes to the Pennsylvania Charter School Law to improve cyber charter funding in a defined period of time.

Note on scope and language: The focus of this report is on how states fund cyber charter schools where all instruction is virtual and students attend on a full-time basis. This is distinct from other schools that use partial or blended models or that are not organized as charter schools. States use different methods for reimbursing charter schools for special education and non-special education students and special education funding is beyond the scope of this report. States use different terminology including online, non-classroom based or virtual charter schools. This report uses the term "cyber charter school" because it is primarily written for a Pennsylvania audience.

Why Cyber Charter Funding is Important in Pennsylvania

Pennsylvania is the cyber charter capital of the nation. Last year over 60,000 Pennsylvania students were enrolled on a full-time basis in cyber charter schools, more students than in any other state including California, Texas, Florida, and New York – all states with much larger K-12 student populations. While cyber charter enrollment jumped by 59% during the pandemic, Pennsylvania's standing as a major cyber state predates the onset of COVID-19. Pennsylvania, California, and Ohio have consistently had the largest cyber charter sectors over the last decade.

Unlike most states that elect to fund cyber charter schools at the state level, cyber charter schools in Pennsylvania are funded by local school districts. This means that aside from special federal or state grants, funds flow from school districts to individual cyber charters through local revenues. By extension, it also means that property taxes are the overwhelming source of revenues for cyber charter schools. The Pennsylvania Association of School Business Officials calculated that between 2013 and 2019, 44 cents of every dollar of new property tax revenue raised went to pay for tuition payments for brick and mortar and cyber charter schools.

Every Pennsylvania school district must calculate charter school tuition rates – for both cyber charters and brick and mortar charter schools – using a methodology set out in PA Charter School Law.

- *For non-special education students:* School districts start by calculating spending per pupil and subtract the cost of transportation, debt service, and other expense categories that do not apply to charter schools.[2] Because these values vary by district, the resulting tuition rates vary across school districts. This year, per student tuition payments ranged from $8,917 and $23,799.

- *For special education students:* Districts calculate special education spending (less federal special education and state early intervention spending), multiply that total by 16% of the district's average daily membership, and add it to the "non-special education" tuition rate. This year charter school special education tuition rates range from $18,599 to $57,391. In 2014, the legislature passed a revised Special Education Funding Formula to calculate special education payments to school districts that more closely aligns payments to costs. Charter schools, including both brick and mortar and cybers, were exempt from this change.

There are several notable consequences of Pennsylvania's system.

- *Cyber charter tuition payments do not depend on the actual costs of operating a cyber charter school.* Under Pennsylvania's current approach, tuition rates depend solely on the financial statements of individual school districts, not the costs incurred by cyber charter school operators. As tuition rates have edged up over time, school districts, and, in turn, taxpayers are at greater risk of overpaying for a service that can be provided at lower cost.

- *Cyber charter schools receive the same per student tuition payments as "brick and mortar charter schools"* that maintain a physical campus. As will be discussed later in this report, multiple studies have documented that remote learning is less expensive than in-person education.

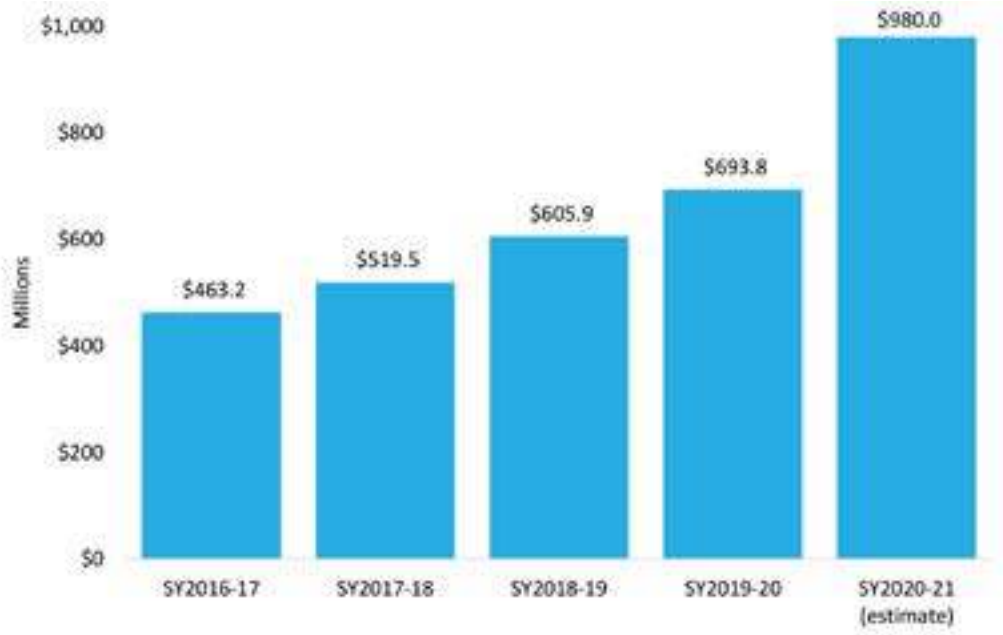
- *Taxpayers in different jurisdictions pay vastly different tuition rates.* Last year, a cyber charter would have received $10,183 for a student residing in Upper Darby and over twice as much ($22,322) for a New Hope-Solebury student. This price inequity is built into the current system and creates incentives to advertise and recruit in districts with higher tuition rates.

- *The funding formula builds the impact of rising charter tuition payments into future tuition bills.* Because there is no exemption for charter school tuition payments, the tuition expense paid by school districts becomes part of their financial base in subsequent years, fueling higher tuition rates and compounding costs paid by local taxpayers.

No other state uses a methodology that mirrors or even closely resembles Pennsylvania's approach, which has been unchanged since it was enacted in 2002.

The need for reform is especially urgent because cyber enrollment jumped by 59% during the 2020-21 school year, putting intense pressure on school districts to raise property taxes or make other programmatic cuts to cover the cost of cyber tuition. The Pennsylvania Association of State Business Officials estimates that cyber charter schools received $980 million dollars in taxpayer-funded tuition payments in the 2020-21 school year, a 40% increase over the prior year.[3]

Chart 1: Cyber Charter Tuition Payments by School Districts Have More Than Doubled in Five Years in PA



Source: PA Department of Education, AFR Data, Tuition Schedule: 2010-11 to 2019-20 and PA Association of School Board Officials estimate for 2020-21

To put this into perspective, $980 million is more than three times the increase in basic education funding that the legislature appropriated for all 500 school districts this year. Even aside from the “cyber surge,” payments by school districts to cyber charter schools have more than doubled over the last five years.

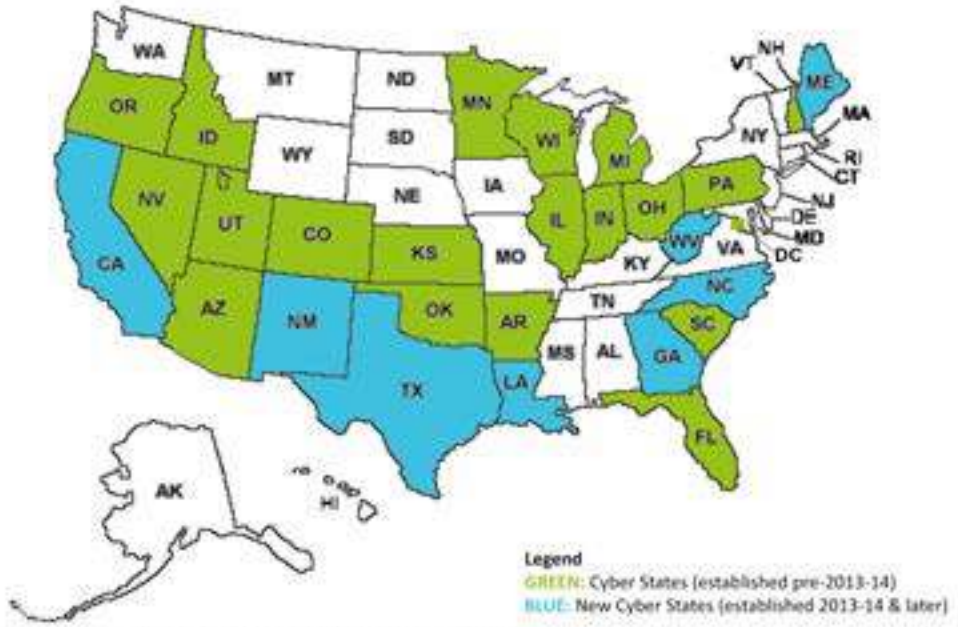
The financial pressures on school districts will intensify in the years ahead. According to new research from Temple University’s Public Policy Lab, charter fees are projected to soar by $1.7 billion by 2025 and are the fastest growing cost in the state’s education system.[4] Researchers estimate school districts will need an additional $3 billion in local revenues by 2025 and, under the current system, most of these new funds will come from higher local property taxes. More than half of that $3 billion increase will go to paying growing charter school costs in both urban centers and rural school districts.

While brick and mortar charter schools have historically been responsible for about 70% of charter school enrollment and cost growth, the 2020-21 school year was a turning point. Last year, 99.7% of Pennsylvania’s charter enrollment growth occurred in virtual charter schools, making cybers accountable for virtually all the charter school-related cost increases to school districts and local taxpayers.[5]

The National Landscape for Cyber Charter Schools

According to the National Center for Educational Statistics, fully virtual charter schools were operating in 27 states in 2019-20 (the most recent year of data), up from 20 states in 2013-14.[6] “Fully virtual charter schools” means schools where all students receive all instruction virtually, as opposed to schools that utilize hybrid or blended models that combine elements of online and in-person learning. All 14 of Pennsylvania’s cyber charters fall into this category.

Map 1: Cyber Charter Schools are Operating in 27 states, on deck in West Virginia



SOURCE: U.S. Department of Education, National Center for Education Statistics, Number of virtual schools by state and school type, magnet status, charter status, and shared-time status, Provisional Version 1a, SY 2013-14 and SY 2019-20. West Virginia passed enabling legislation in 2021.

Seven states have started authorizing cyber charters since 2013, including California, Georgia, Louisiana, Maine, New Mexico, North Carolina, and Texas. In addition, last spring the West Virginia state legislature passed enabling legislation allowing for statewide virtual charter schools, making it the 28th cyber state.

Not every state has passed enabling legislation regarding cyber school authorization and funding. Currently, 45 states have laws enabling brick and mortar charter schools with Minnesota passing the first law in 1991. Cyber charter schools began to emerge about ten years later as select states began to amend their charter school statutes to permit fully or blended online models. Pennsylvania followed this pattern, passing a Charter School Law in 1997 and amending it in 2002 to govern cyber charter operations. There have been no changes to Pennsylvania's cyber statutes since 2002.

States took several different approaches to fostering or limiting cyber charter school growth.

- Twenty-three states explicitly authorize virtual charter schools.[7] Two of these states, Hawaii and Oklahoma, currently do not report any active cyber charter school in the 2019-20 school year even though their law permits them.

- Some states (including Massachusetts, New Jersey, North Carolina, and Virginia) remain silent on the permissibility of cyber charters, neither expressly authorizing nor prohibiting them.[8]

- Six states (Alabama, Connecticut, Delaware, Maryland, Mississippi, and Tennessee) explicitly prohibit the creation of cyber charters even though they allow brick and mortar charters.[9]

- New York State Law does not explicitly authorize or prohibit cyber charters but contains provisions that effectively preclude their operation.[10] No cyber charter schools are currently operating in New York State.

While the pathways and details varied from state to state, the bottom line is that over the last 25 years, just over half the states have explicitly or implicitly authorized the introduction of full-time, online education in cyber charter schools.

How Did The Pandemic Affect Cyber Enrollment?

According to the most recent national data from the National Education Policy Center and the National Center for Educational Statistics, approximately 250,000 students were enrolled in 238 virtual charter schools in the 2019-20 school year with half of the states exceeding 10,000 students.[11] To put the scale of Pennsylvania's cyber charter sector into perspective, last year the Commonwealth Charter Academy enrolled 19,200 students, or nearly twice the number of students attending virtual charters in all but the largest of states.

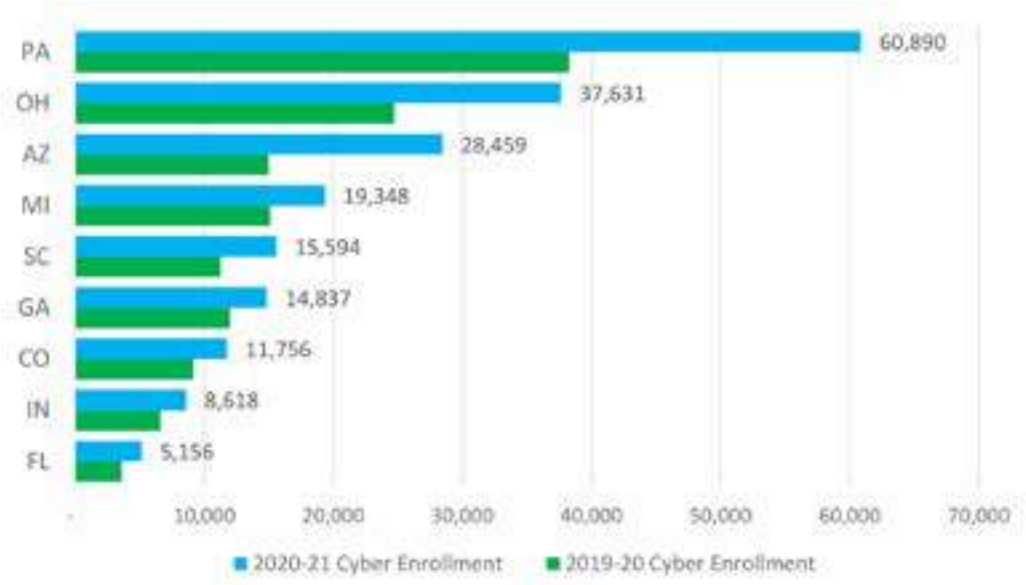
Last year was a pivotal year for cyber enrollment due to the onset of the pandemic. Facing a highly uncertain school year with no guarantee of in-person schooling, many parents who previously would not have considered online learning alternatives enrolled their children in cyber charter schools. The result was an unprecedented surge in cyber enrollment.

Pennsylvania had both the most full-time cyber charter students in the 2020 school year and the largest increase in enrollment of the major cyber states in 2021. Enrollment in Pennsylvania's 14 cyber charter schools grew by 59% to nearly 61,000 students. No other state comes close to that level of full-time enrollment. The average increase in enrollment for the other eight large cyber states was 45%.

It is too soon to know if the cyber surge represents a one-year spike or the start of a longer-term trend. School districts in every region of the state are working to persuade students to return to the classroom or, at a minimum, enroll in district-run online learning program. Over 90% of school districts statewide run their own online alternatives.

Last year Commonwealth Charter Academy enrolled 19,200 students, or nearly twice the number of students attending virtual charters in all but the largest of states.

Chart 2: Enrollment Growth in Pennsylvania's Cyber Charter Schools Outpaced Other Large Cyber States During 2020-2021, the First Full Year of the Pandemic



Sources: Enrollment data from state departments of education, 2019-20 and 2020-21. California was not included because state law defines non classroom-based schools as those providing at least 20 percent non classroom-based instruction (not full-time instruction) and because the state does not report cyber charter students separately from its larger non classroom-based sector.

The Waynesboro Area School District, for example, is trying "to help keep local tax money in the community and not going to for-profit cyber school businesses" by offering a new First Choice VIP (Virtual Instruction Program) district-run cyber school.[12] At the same time, cyber charters, especially those associated with for-profit educational management service providers like Pearson (formerly Connections

Academy) and Stride, Inc. (formerly K-12, Inc.), are advertising heavily on TV, radio, Facebook, and other social media. Parents are balancing competing desires to have their children return to the classroom for academic and social reasons against concerns about masking and health risks.

While it is unclear how these factors will play out, online education service providers appear confident. Stride confidently predicted to investors that COVID would bring "a lasting tailwind to online education."[13] If this prediction holds true, it is even more important for Pennsylvania lawmakers to understand how other states fund their cyber charter schools and to consider alternatives.

How Does Pennsylvania Compare to Neighboring States?

As shown in Chart Four, the cyber charter landscape is highly varied. Of the states surrounding Pennsylvania, only Ohio has a significant cyber charter presence. Four states (Delaware, Maryland, New Jersey, and New York) have no cyber charters and West Virginia passed enabling legislation in 2021

Map 2: Only 1 of 6 Neighboring States Have Cyber Charters - With West Virginia on Deck

Legend

RED: No Cyber Charters

YELLOW: Major Charter State

Purple: New Cyber Charter State

Ohio's cyber sector is the most like Pennsylvania's of any neighboring state. Both states passed enabling legislation about 20 years ago that permitted steady growth of schools and enrollment. Accordingly, cyber charter enrollment in Ohio grew from 1,900 students in 2001 to over 37,000 students in 2021 in 14 "e-schools," the same number of cyber charter schools as in Pennsylvania. According to national researchers at the Center on Reinventing Public Education, "high enrollments in online charter schools in Ohio and Pennsylvania may be related to uncapped initial growth and relatively generous funding levels."[14]

Ohio's funding system differs from Pennsylvania's in several ways. First, Ohio e-schools receive their funding directly from the state, not the school district.[15]

Ohio calculates a statewide per student tuition payment instead of basing tuition on expenses by individual school districts.

Second, Ohio calculates a statewide per student tuition payment instead of basing tuition on expenses by individual school districts as is done in Pennsylvania. Finally, payments to schools in Ohio are based on a student's participation in "learning opportunities" (e.g., reading a book or meeting with a teacher) versus Pennsylvania's system which is based on enrollment and attendance.

A study commissioned by Ohio Governor Mike DeWine (R) and the Ohio General Assembly (R majority in both chambers) concluded that e-schools received an average of 83% of per pupil payments to their brick and mortar counterparts.[16] In fiscal year 2020, Ohio e-schools received a base amount of $6,020 per student along with $25 per student payment for facilities. E-schools are also eligible to receive special education funding and career-technical education funding but, unlike brick and mortar charters, e-schools cannot receive additional payments for students who are English language learners or who are growing up in economically disadvantaged families.

Delaware, Maryland, New Jersey, and New York do not have any cyber charters. State law in Delaware and Maryland categorically prohibit virtual charter schools. As previously noted, New York's charter school law does not prohibit virtual charters, but makes it difficult to operate them. While state law in New Jersey is silent on cyber charters, none have been authorized. Some private schools offer online courses on a tuition basis to high school students.[17]

West Virginia is the most recent state in the nation to pass legislation permitting cyber charters. Up until 2019, West Virginia state law did not allow for charter schools of any kind. On the heels of a contentious debate that prompted a teachers strike, the legislature passed charter school provisions in a 2019 special session that allowed for up to three brick and mortar charter schools and was silent on virtual charters. Two years later, the cap was increased to ten brick and mortar schools and, for the first time, permitted two state-authorized, statewide virtual charter schools.

Each of the new virtual charters may enroll up to 5% of statewide public school enrollment or about 25,000 students.[18] In addition, each of West Virginia's 55 county school districts can authorize a virtual charter school as long as the school enrolls no more than 10% of a county's students. Given that no state had more than 2.5% cyber enrollment in the 2020 school year, West Virginia's "caps" are unlikely to constrain enrollment.

Virtual charter schools will be funded the same as brick and mortar charter schools. The core element of the funding formula is that 90% of the state's per student total basic foundation allowance will follow the student to the charter school. School districts also can reduce payments to cyber charter schools to adjust for lower transportation and current expense. Finally, the state education agency must establish a statewide formula for charter schools to cover the cost of the authorizer.[19]

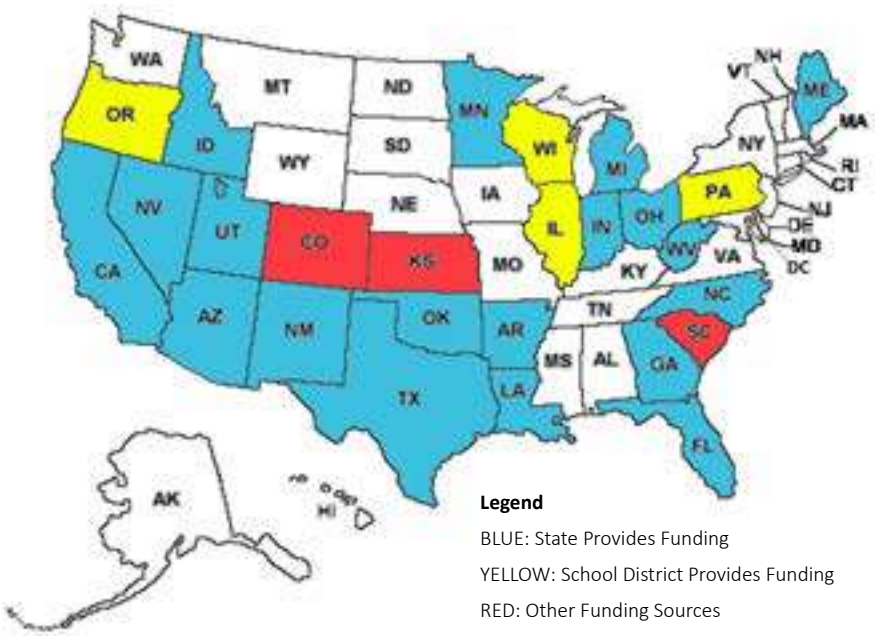
How Do States Fund Cyber Charters?

The most common model is for states to fund virtual charter schools the same way that they fund brick and mortar charter schools. This means that the funding level is not tied to actual virtual school costs but is instead based on the state, district, or charter school per pupil allocation for brick and mortar schools.[20] Despite the fact that states had the option of developing separate systems for brick and mortar and cyber charter schools, the National Education Policy Center reports that "no state appears to have developed a funding model specifically for virtual charter schools based on their unique structures and expenses."[21]

How Do Funds Flow?

Twenty-one states directly provide funding for charter schools versus four states that fund cyber charters through school districts. (The remaining states use hybrid or other arrangements.)

Map 3: 20 States Directly Fund Cyber Charter Schools



Sources: Education Commission of the States (https://www.ecs.org/charter-school-policies/), EdBuild (http://charters.funded.edbuild.org/) , and state research

Each of the four states that fund cyber charter schools through their school districts uses a somewhat different approach.

Pennsylvania: State law requires Pennsylvania school districts to make a per student tuition payment for every student residing in the school district who enrolls in a cyber charter school. The result is a zero sum game where every new enrollment in a cyber charter school results in a corresponding decrease in resources at the sending school district.

Prior to 2012, the Commonwealth provided partial relief to school districts by making "charter school reimbursement line item" payments. These payments were intended to compensate districts for "stranded costs" related to staffing and facilities. For example, even if the number of students in a classroom decreased slightly because a few students transferred to charter schools, school districts still needed to fully fund a teacher to lead the class for the remaining students.

As part of sweeping educational budget cuts in 2011, former Governor Corbett (R) zeroed out the reimbursement line, starting in 2012, eliminating payments to help districts adjust to stranded costs. In 2015, Pennsylvania updated its Basic Education Funding Formula to include a weight to adjust for a small portion of the costs of charter expansion. One major limitation of this funding factor is that it only applies to new Basic Education Funding appropriated since fiscal year 2014-15, or about 11% of total state education spending. In addition, the weight is too small to provide meaningful financial relief. Research for Action calculated that for the School District of Philadelphia, the charter weight in the Basic Education Funding formula generated only $8 per student enrolled in a charter school in the 2016-17 school year compared to $2,417 per pupil from the charter reimbursement line item.[22]

It is worth noting that there is some precedent from other states for compensating school districts for stranded costs. For example, New York and Massachusetts provide transitional aid to partially offset stranded costs related to expansion of local brick and mortar charter schools.[23]

Illinois: Although Illinois and Pennsylvania have about the same total population, Illinois has a much smaller cyber charter sector. In the 2019-20 school, 522 Illinois students attended two fully virtual charter schools as compared to 38,200 students attending 14 cyber charter schools in Pennsylvania.

Unlike Pennsylvania which has a statewide authorizer, cyber charters in Illinois can be authorized by local school districts or the State Board of Education. Illinois virtual charter schools authorized by local school districts must negotiate funding with the sponsoring school district and the agreed upon amount is written into the contract. Payments may not be less than 97% or more than 103% of a school district's per capita student tuition rate.[24] Charter schools authorized by the State Board of Education are funded directly by the state.

In 2013, the Illinois General Assembly (D majority in both chambers) placed a moratorium on the creation of virtual and called for the State Charter School Commission to prepare recommendations on performance, cost, and oversight. The moratorium was later extended to 2016. The Commission's recommendations included that school districts should establish a Request for Proposal process for new applications for virtual schools and that payments should be based on measures of student success and engagement.[25]

Oregon: Virtual charter schools that are authorized by a local school district receive funding through the local school district. Per student payments are set at 90% of the school district's state General Purpose Grant for students in grades K-8 and 95% for students in grades 9 through 12.[26]

In 2019, Oregon (D majority in both chambers) passed the Student Success Act, a new state law to improve schooling for students across Oregon accompanied by a $2 billion investment in education.[27] Several provisions affect cyber schools including that virtual charter schools are categorically ineligible to receive Student Success Act funds.[28] In addition, districts with more than 3% of students enrolled in virtual public charter schools sponsored by other districts have the option to deny new enrollments and provide other online options.[29]

Wisconsin: Wisconsin cyber charter funding is negotiated by contract between the charter school and the local school district. Unlike the Illinois model, state law does not set upper and lower limits on tuition payments. Per pupil allocation depends on the funding level agreed to in their contract with a local district that serves as their authorizer.[30]

Payments to Cyber Schools

Funding models vary from state to state and may include a statutory base amount, adjustments for local resources, adjustments for small or rural school districts, and other factors. Some states provide supplemental funding for students who are more expensive to educate including English learners and low-income students. For the most part, states use these same factors to determine payments to cyber charters. The following analysis focuses on state operating funding for cyber charters offering full-time online education. Capital funding, special education funding, and payments for students taking courses on a part-time basis is beyond the scope of this analysis.

A national scan of state policies reveals that while most states fund cyber charters and brick and mortar charters equally, cyber tuition rates are set below tuition rates for their brick and mortar counterparts in eleven states.

Table 1: Eleven States Fund Cyber Charters at a Lower Level than Brick and Mortar Charter Schools
Arizona - 95% of brick and mortar charter funding by state statute[32]
Colorado - 92% of statewide average per pupil funding in 2021-22[33]
Florida - approximately $2,000 less per student than brick and mortar charters[34]
Georgia - 27.5% below brick and mortar charter in 2019-20[35]
Indiana - by statute, now 85% of brick and mortar charters[36]
Kansas - $400 to $1,500 less per student[37]
Louisiana - by statute, 90% of brick and mortar charters[38]
North Carolina - 74% of brick and mortar charter funding[39]
Ohio - about 82% of brick and mortar funding[40]
South Carolina - fixed rate for state authorized charter is $1,600 below brick and mortar charters[41]
Texas - for schools authorized since 2013, funding is based on a course completion model that generates full funding only if a student completes 8 semesters or 4 year-long courses[42]

These states, which represent 39% of the states that permit cyber charter schools, reflect tuition policies enacted by legislators from both political parties. Independent researchers have validated that per student cyber funding typically ranges from between 70% and 90% of brick and mortar charter school funding rates.[31]

Of the remaining 17 states with cyber charter schools, ten states (Arkansas, California, District of Columbia, Idaho, Maine, Michigan, Minnesota, Nevada, New Hampshire, New Mexico) fund cyber charters at the same per pupil level as brick and mortar charter schools and traditional public schools. An additional seven states (Illinois, Oklahoma, Oregon, Pennsylvania, Utah, West Virginia, Wisconsin) fund cyber charter schools on a par with brick-and-mortar charter schools, but different than traditional public schools.

The following state profiles detail the methods states use to fund virtual charter schools in selected states.

Georgia

Georgia has two full-time, virtual charter schools with a combined enrollment of about 15,000 students.[43] Charter school funding comes from the state's general fund with virtual charters schools receiving 20% less in Quality Basic Education funding than brick and mortar charters.[44] In 2019-20, the total average per-pupil funding for the state's virtual schools was $7,256 or 27.5% below both the comparable rate for Georgia's brick and mortar charter schools[45] and per pupil expenditures per full-time student in public schools systemwide.[46]

Colorado

Colorado uses a statewide, student-based funding formula that funds most online charter schools at a lower level. Base per pupil funding is set annually by the legislature in the Public School Finance Act of 1994. Single-district online programs and schools are funded at the same level as brick and mortar schools in the school district. Multi-district schools – which are the schools most like Pennsylvania's cyber charters – receive on an online per-pupil funding rate that is reduced by a "budget stabilization factor."[47] For the 2020-2021 school year, multi-district schools received $7,450 or 92% of the statewide average per pupil funding of $8,123.[48] In terms of local funding, prior to 2017, school boards were required to consider the needs of their charter schools but were not required to share revenue. In 2017, Colorado passed HB1375 bill requiring school districts to equally share local tax revenues with charter schools. However, the bill exempts districts from sharing with schools authorized by the Charter School Institute, including multi-district online schools.[49] The legislature declined to appropriate $17 million for a separate pool of funds for these schools.[50]

North Carolina

North Carolina has a two-part system consisting of NCVirtual, a large, state-led virtual school that offers over 150 courses available to K-12 schools across the state, and a "pilot program" that currently consists of two virtual charter schools. Both NCVirtual and the virtual charters schools are funded at lower levels than other North Carolina schools using allotment formulas developed by the State Board of Education.

NCVirtual receives 75% of projected instructional costs for each student who transfers from a traditional district.[51] Virtual charter schools in the pilot program receive $0.60 for every dollar a traditional public school receives, and $0.74 for every dollar a brick and mortar charter school receives.[52]

South Carolina

South Carolina has been described as having the "lowest funded [charter school] district in the United States with regard to per student funding."[53] There is no statutory funding formula. Instead, South Carolina funds virtual charters through the South Carolina Public Charter School District (SCPCSD) through an annual budget request to the legislature. Because local money does not follow the child, the legislature appropriates additional dollars through an annual budget proviso to help backfill the lack of local funds. Currently, brick and mortar charter schools receive $3,500 per pupil and virtual charter schools receive $1,900 per pupil, or only 46% of the allocation for brick and mortar charters.[54] On a statewide basis for all schools, South Carolina is projected to spend $6,416 in state and $7,358 in local revenues per pupil in 2021-22.[55]

Indiana

All Indiana public schools, including cyber charter schools, are funded through a formula that provides a per student base grant funded with state tax dollars.[56] Virtual charter schools receive a lower percentage of the base amount along with supplemental funding for students from low-income households, students with disabilities, and students in career and technical education programs.[57] In 2019, the reimbursement rate for virtual charter students was reduced by the legislature from 90% to 85% of student base grant. That same year, lawmakers adopted a reform package to improve attendance and engagement at cyber charter schools.[58] For the 2020-2021 school year, the per student base grant was set at $5,703 for all public schools, $5,133 for brick and mortar charter schools (which is equal to 90% of the base grant), and $4,848 for cyber charters (which is equal to 85% of the base grant).[59]

Why Do States Pay Cyber Charter Schools Less?

Numerous academic studies, financial analyses, and audits demonstrate that cyber charter schools have cost structures that are roughly 25% to 30% below brick and mortar schools. These include the Education Commission of the States (24% lower)[60], PA Department of the Auditor General (25% lower)[61], National Education Policy Center (30% lower)[62], and the New Mexico Legislative Education Study Committee (22% to 26% lower).[63] State lawmakers are increasingly acting on this evidence. In 2017-18, for example, 17 bills were introduced in state legislatures aiming at limiting or reducing per-pupil funding for online charter schools, with lawmakers in Louisiana, Oklahoma, New Mexico, and Michigan all calling for a 20% to 25% reduction in per-pupil funding rates.[64]

Numerous academic studies, financial analyses, and audits demonstrate that cyber charter schools have cost structures that are roughly 25% to 30% below brick and mortar schools.

Leading national charter school organizations have echoed the need to align cyber tuition with actual costs. The National Alliance for Public Charter Schools (NAPCS) recently revised its model law criteria to include that funding levels for full-time virtual schools should be based on costs.

Specifically, NAPCS's model law calls for "states [to] require full-time virtual charter school operators to propose and justify a price per student in their charter school applications."[65] In 2016, NAPCS joined with two other leading national organizations, the National Association of Charter School Authorizers and 50CAN, to issue a call for action to legislators to align per pupil funding allocations with the actual costs of educating virtual school students.[66] The fact that three major, pro-charter organizations jointly spoke on this issue is highly unusual and reflects the importance of aligning costs to the larger charter school sector.

Structural Reforms in Cyber Charter Funding

The earliest cyber states with the longest operating cyber charter schools have two decades of experience authorizing, funding, and regulating cyber charter schools. Over this time, many states have adopted new approaches to improve the operations and performance of their cyber sectors. Three new structural practices to improve performance and accountability have emerged:

- Performance Based Payments: to link funding to measurable student outcomes
- State Virtual Schools: to build a centralized source of online courses, curriculum, and supports
- Mandated audits: to ensure regularly monitoring cyber charter enrollment and financial performance

In some cases, these innovations reforms were designed to address well-documented concerns about student performance. For example, a 2019 report from the National Education Policy Center found that of 320 virtual schools with available performance ratings, only 48.5% rated acceptable. [67] Performance is also an issue in Pennsylvania where all 14 cyber charters scored below the statewide average on the most recent English and math assessments and all 14 have been identified as needing support under the states ESSA School Improvement and Accountability plan.

National researchers have studied Pennsylvania's cyber charter schools and found that a student enrolled in a cyber charter school loses the equivalent of 106 days of learning in reading and about 118 days of learning in math compared to the average traditional public school student.[68]

All 14 PA cyber charters scored below the statewide average on the most recent English and math assessments and all 14 have been identified as needing support under the states ESSA School Improvement and Accountability plan.

Table 2: All 14 PA Cyber Charters Lag Statewide Average Performance in English and Math		
	% Proficient or Advanced on PA State Assessments	
	English	Math
21st Century Cyber CS	61.8	38.9
Achievement House CS	37.1	16.9
Agora Cyber CS	34.0	10.6
ASPIRA Bilingual Cyber Charter School	11.1	4.9
Central PA Digital Learning Foundation CS	34.5	20.7
Commonwealth Charter Academy CS	5.0	13.5
Esperanza Cyber CS	28.7	3.7
Insight PA Cyber CS	28.5	7.6
Pennsylvania Cyber CS	42.5	21.9
Pennsylvania Distance Learning CS	30.2	10.2
Pennsylvania Leadership Charter School	56.3	30.7
Pennsylvania Virtual CS	49.7	24.5
Reach Cyber CS	38.2	14.2
Susq-Cyber CS	NA	NA
PA Statewide Average	**62.1**	**45.2**

Source: PA Department of Education, Future Ready PA, 2018-19

In light of this evidence, policymakers should look for opportunities to reform cyber charter school funding and simultaneously improve educational outcomes for students.

States are Fundamentally Restructuring by Adopting Performance-Based Payment

Some states with cyber charter schools have moved away from the concept of funding based on seat-time and replaced it with performance-based funding models that link funding or public education programs with measurable student performance outcomes such as course completion or competency.[69] While the main objective is to more closely link payments to desired educational outcomes, a performance-based funding system may also discourage virtual schools from enrolling students who are unlikely to be successful in a virtual environment.[70]

Leading education organizations have helped to build the scaffolding for performance-based funding. The National Association of Public Charter School evaluation criteria for full-time virtual schools calls for states to fund schools "via a performance-based funding system based on meeting the accountability performance provisions."[71] The Aurora Institute, a national hub for innovation in K-12 education, has developed alternative performance-based funding models based on course completion and competency outcomes.

Overview of Performance-Based Funding Models

Model 1: Performance-Based Funding by Course Completion Outcomes - Funding is based on successful completion of online courses and the quality of the course is verified by an independent assessment to measure student learning (where possible). Programs ma receive incentive funding for students who show competency development with additional incetive funding for programs that show gains for special needs populations.

Model 2: Performance-Based Funding by Competency Outcomes - Programs receive funding based on course and competenc completion percentages (i.e., if a student completes 30% of the course, the online program receives $30 of the funding).

Adopted from iNacol (now Aurora Institute), Performance Based Funding & Online Learning: Maximizing Resources for Student Success, March 1, 2015. https://aurora-institute.org/wp-content/uploads/iNACOL-Performance-Based-Funding-and-Online-Learning.pdf

The internal mechanics and payment structures vary from state to state. According to the Center on Reinventing Public Education, events that can trigger payment include passing an exam, earning a course credit, and demonstrating mastery of the content of the material. Three states assign themselves the responsibility to determine whether competencies have been met, while one state assigns that authority to the teacher. Two states allow partial payment for partial completion and two states require students to complete the course before the school is eligible to receive payment.[72]

Five states - Florida, Minnesota, New Hampshire Texas, and Utah - have incorporated some form of performance-based funding elements in their payment systems. Other states are exploring options to move in this direction. In 2019, the Ohio legislature passed a bill requiring the state education department to study performance-based funding for the state's e-schools.[73] Ohio and Arizona's online schools are funded on the basis of "documented learning opportunities" where parents and/or students log work completed each day. By tracking engagement, this model goes a step beyond payment systems based on whether or how long a student logs in.

Pennsylvania does not use performance-based funding. School districts are required to make a tuition payment to a cyber charter school for every student residing in the school district who enrolls in the cyber charter school regardless of the level of engagement or how much that student learns. One shortcoming of this model is that school board members who are responsible for funding cybers do not have a seat at the table when they are initially authorized or renewed. In addition, if a student decides to return to district enrollment after attending a cyber charter, the district is responsible for bringing that student back up to performance levels comparable to their peers, typically incurring additional costs.

While there is currently no mechanism to systematically reward high performers, Pennsylvania cyber charters identified as needing support under the state's ESSA School Improvement and Accountability Plan are eligible for additional funding. Cybers collectively received $18 million in School Improvement Grants in the 2020 school year.[74]

The purpose of these funds is to substantially raise the achievement of students in the lowest-performing schools. Even under previous school performance metrics, Pennsylvania cyber charter schools have remained stubbornly behind. No cyber charter ever achieved a passing score under the School Performance Profile system that was in place from 2013-2017 and few Pennsylvania cyber charters were rated as making "adequate yearly progress" before that.

There is precedent from other Pennsylvania state agencies including the Department of Human Services which implemented a Pay-for-Performance program over a decade ago for Medicaid managed care organizations aligning incentive payments with high-quality health care. This performance-based framework was later extended to hospitals, nursing homes and behavioral health providers. Similarly, PENNDOT and the Department of General Services routinely structure contracts where the level of payment is linked to specific performance benchmarks.

There is also precedent in other states. These following brief profiles summarize key features of performance-based models that other states have developed to fund their virtual charter schools.

Florida – A "Course Completion" State

Florida's biggest player in online education is the Florida Virtual School (FLVS), a statewide public school district with a projected statewide enrollment of approximately 9,000 full-time K-12 students for the 2021-2022 school year.[75] Founded in 1997, FLVS was originally funded through a state appropriation. By 2003, Florida legislators passed the nation's first performance-based funding model to allow for continued growth, quality assurance, and support by the school districts throughout Florida.[76]

Florida's funding framework, which applies to FLVS and other charter and non-charter schools that offer virtual learning, is based on successful course completion.[77] There is no partial funding for students who only complete a portion of a course. The state makes payments throughout the year and reconciles them at year-end based on final course completion. Virtual schools are also eligible for supplemental funding based on student demographics for full-time students in the same way as at traditional school districts.[78]

Minnesota And Utah – Performance-Based Funding for Part-Time Students

Minnesota and Utah have different payment structures for full-time and part-time students. In both states, funding for full-time students is based on enrollment and funding for part-time students is based on course completion.

In Utah, cyber schools can receive partial payments if a portion of the course is completed and additional compensation if the course is completed within 12 months of enrollment. The student's resident district is responsible for payment to the online provider.

Minnesota also uses the course completion model with the unusual feature that a student is not required to pass the course.[79] For supplemental online courses, 88% of per course funding goes to the provider and 12% to the enrolling district or charter school.[80]

Texas – Students must Complete Eight Semester Courses

Unlike other states that pay by course or have other intermediate benchmarks, full-time students in Texas must complete eight semester courses (or four year-long courses) to generate a full payment to online providers. There is no partial funding for students who complete a lower number of courses. Students must achieve a passing grade, not just complete the coursework.[81] Online schools are eligible for supplemental funding for students with disabilities, economically disadvantaged students, English learners, and certain other students like other schools. Payments for part-time students are based on enrollment, not completion or other performance metrics. Texas part-time students are required to take courses in a district classroom, not in their home or other non-classroom setting.[82]

New Hampshire – Payments Based on Content Mastery, Not Course Completion

The Virtual Learning Academy Charter School (VLACS) is New Hampshire's only provider for online education. VLACS was created under state charter school rules in 2007 and today is one of the largest statewide virtual schools in the county. New Hampshire's payment system is unique in that it is based on competency milestones within courses rather than enrollment or course completion.[83] There is no limit to how long a student may take to complete a course and a single course covers multiple competency milestones. The Aurora Institute describes VLACS as "is among the best examples of performance funding anywhere in the country."[84]

These five states exemplify the variety of funding models that are being tested today. While there is limited research on the impact of performance-based payment systems on cyber schools revenues, reports from two states suggest that cyber providers earn approximately 90% of potential payments. The Center on Reinventing Public Education used data from Connections Academy and found that it earned 86% of potential revenues. Similarly, New Hampshire's VLACS earned 91%of the state's per student allocation.[85] This reflects the fact that not all students will complete all courses or master material at the same pace.

State Virtual Schools Enhance Cyber Offerings in 21 States

State virtual schools offer online courses for students on a full-time and supplemental basis. In addition to serving as course providers, state virtual schools can deliver an array of educational services to improve and operationalize cyber education. In the 2016-2017 school year, state virtual schools served over 420,000 students who enrolled in nearly one million supplemental online courses.[86]

Twenty-one states currently have state virtual schools with more states in the pipeline (see Chart Five). Connecticut, a state that currently does not permit cyber charter schools, passed legislation to develop a statewide virtual school in June 2021.[87] Legislators in other non-cyber states such as Maryland have also introduced enabling legislation.[88]

In the 2016-2017 school year, state virtual schools served over 420,000 students who enrolled in nearly one million supplemental online courses.

Map 4: 21 States Have Adopted State Virtual Schools

Source: Digital Learning Collaborative, State Virtual Schools, 2018. Connecticut passed legislation in 2021.

State virtual schools differ from stand-alone cyber charters in several ways. State virtual schools are typically created by legislation or by a state-level agency as opposed to being chartered by an authorizer.[89] State virtual schools may be administered by a variety of entities including a state education agency (Georgia, Oregon, Virginia), a nonprofit organization (Michigan), charter schools (New Hampshire), higher education institutions (Montana), or contractor.[90]

State virtual schools provide online instruction for full-time and/or part-time students. Two states, New Hampshire and Florida, enroll full-time online students, grant diplomas, and perform the other duties similar to traditional public schools.[91] As previously noted, both states have implemented performance-based funding models. These schools and the remaining state virtual schools also offer supplemental courses that are typically reimbursed by local school districts on a per course basis.

State virtual schools also provide services that can enable school districts and schools to deliver online courses. This can include offering access to curriculum, learning management system (LMS) access, professional development for blended learning instruction, technology support, and planning services.[92]

Because state virtual schools are public or nonprofit organizations, they are positioned to provide services at scale and at a lower cost than traditional education service providers. Examples from established state virtual schools include:

- The Alabama Connecting Classrooms, Educators, and Students Statewide (ACCESS) Franchise Model is an agreement between school districts and the Alabama State Department of Education to use select ACCESS online courses in a hosted LMS at no cost.
- Georgia Virtual makes more than 100 courses available to the public as open educational resources (OER). Districts can access these courses, plus assessments, at no cost.
- Virtual Arkansas makes its online courses available for schools to use in the classroom in a hosted LMS at no cost.[93]

Table 3: Summary Comparison of State Virtual Schools and PA Cyber Charter Schools		
	Statewide Virtual Schools	**PA Cyber Charter Schools**
How Schools are Created	State legislation or a state-level agency	Charter agreement between PA Department of Education and cyber charter school
Organization type	State agency, contractor, or non-profit organization	Non-profit organization
Instruction	Full-time students (2 states) and supplemental courses	Full time students
Supplementary Services Offered	Varies, may include curriculum, learning management system (LMS) access, professional development, technology support, and planning services	Typically none
Funding	Appropriation, fees, local school districts and/ or performance-based payments	Local school districts

Sources: adapted from iNACOL, Keeping Pace with Online Education, 2015, Digital Learning Collaborative, State Virtual Schools, 2018

While Pennsylvania does not operate a state virtual school, the General Assembly established a network of 29 Intermediate Units (IUs) that provide many of the same services to Pennsylvania school districts, charter schools, and non-public schools. Each IU functions as a regional educational service agency, in most cases serving multiple counties. The specific educational, administrative, and technology services that each IU offers varies to best meet local needs. Pennsylvania's IUs also deliver full and part-time cyber education for 25,000 students and offer over 10,000 unique courses. In these ways, IUs fill many of the roles of state virtual schools operating in other states.

Establishing a state virtual school in addition to the network of IUs could advance the way Pennsylvania funds and delivers online education in at least two ways. First, a state virtual school could reduce the pressure of rising cyber charter tuition payments on local school districts. Most states funds state virtual schools through a state appropriation that is in some cases supplemented by a per course enrollment fee. Florida, New Hampshire, and Texas also incorporate performance-based payment systems within this model. Wisconsin funds its state virtual school almost entirely on course fees and Arkansas and Vermont rely on schools or districts paying a member fee.[94] Any one of these methods would offer school districts a more predictable way to forecast their expenses for virtual learning than the present system.

In addition, a state virtual school can function as a true public good by providing online courses and other resources at low or no cost. For example, curriculum developed by the state virtual school can be scaled and freely shared with cyber charter schools and district-run programs. This would create economies for school districts and directly compete with the current practice of cyber charter schools individually procuring services from for-profit education management service providers. The potential savings are substantial. In 2018, for example, Agora Cyber Charter School paid K12, Inc. $24 million for curriculum services, or 25% of Agora's total revenue.[95]

Audits Enable States to Improve How they Count Cyber Students for Funding Purposes

While the primary focus of this report is how states set tuition for their cyber charter schools, an equally important factor is how states count students for funding purposes. This makes sense because total state spending on cyber charters equals the cyber tuition rate multiplied by the number of students. Most states use average daily membership (ADM), average daily attendance, or once or twice per year headcounts to track enrollment in cyber charters and other schools. Pennsylvania uses ADM which measures the number of students enrolled at various points throughout the school year.[96]

The nature of remote learning, especially in asynchronous settings, makes it more difficult to measure attendance and engagement. The New Mexico Legislative Education Study Committee report concluded that "basing funding on attendance and seat-time should be reconsidered, as physical attendance is a minor and irregular occurrence at virtual schools."[97]

In addition to the inherent difficulty of measuring student participation on a daily basis, multi-million dollar enrollment scandals grabbed headlines and lawmakers' attention in three states.

Ohio: Legislature passes tighter rules post ECOT scandal

A recent state audit found that Ohio's largest e-school, Electronic Classrooms of Tomorrow (ECOT), had over-reported enrollment by more than 9,000 students at a cost of $80 million. Nine of 13 e-schools were found to be over-reporting enrollment and two of them, including ECOT, closed their doors. The Ohio Supreme Court upheld the judgment against ECOT in October 2021.[98]

The Ohio legislature responded by passing a reform package that established that students enrolled in online schools are participating 90% of the hours specified or on track for on-time completion of any course.[99] The intent of the legislation, effective in the 2020-21 school year, is to strengthen the accountability of online schools by shifting the metric to participation and engagement instead of enrollment.

In Ohio, Electronic Classrooms of Tomorrow over-reported enrollment by more than 9,000 students at a cost of $80 million.

Indiana: Attorney General files suit based on state audit findings

Like Ohio, Indiana had a major cyber enrollment scandal that prompted a policy response. In 2021, the Indiana Attorney General filed suit against the two major online schools charging that they improperly claimed about 14,000 students as enrolled between 2011 and 2019, generating $68 million in fraudulent tuition payments. The suit was largely based on audit findings by the Indiana State Board of Accounts. Indiana charter schools are subject to annual audits.

In 2019, the legislature passed a reform bill requiring virtual charter schools to be transparent about the methodologies they use to track and monitor student participation and attendance. In addition, students who regularly do not participate in courses must be withdrawn from the school and cannot be counted for payment purpose.[100] Finally, in what has been described as a warning signal to low-performing cybers, the Indiana legislature reduced cyber payments from 90% to 85% of the per student base grant for all public schools.[101]

California: Moratorium extended

In California's A3 virtual school enrollment scandal, defendants were charged with running a network of 19 online charter schools that provided little to no education to most of the children enrolled, bilking the state out of $220 million.[102] In a unique twist, A3 leaders bought children's personal information to falsely enroll them in the schools. A3 leaders also manipulated enrollment and attendance figures to receive state funding for time that children were not spending in A3 schools.[103]

In California, defendants were charged with running a network of 19 online charter schools that provided little to no education to most of the children enrolled, bilking the state out of $220 million.

The A3 debacle revealed many weaknesses in state "non-classroom based" charter school law, prompting the legislature to implement a statewide moratorium on new online charter through 2022. In addition, reformers drafted a major new bill (AB1316) that would:

- Require charter schools to follow the same audit procedures and audit schedules and use the same Standardized Account Code Structure, as school districts
- Create the Office of Inspector General at the CA Department of Education
- Increase charter school authorization oversight regarding average daily attendance

While AB1316 was not brought to a vote in the 2021 legislative session, the moratorium on new schools was extended to 2025.

It is worth noting that non-classroom based charter schools in California are required to meet specific spending targets related to instructional costs and certificated teachers. Schools that don't meet these targets face funding reductions. These regulations were adopted to ensure that schools spend their funds appropriately and to act as a check on potential profiteering.[104]

Pennsylvania does not routinely conduct enrollment or financial audits of cyber charter schools. A recent investigation by the *Scranton Times-Tribune* found that six of the state's 14 cyber charter schools have never been reviewed by state auditors.[105] Commonwealth Charter Academy, the largest cyber charter in the state with an expected $270 million budget for 2021, was last audited in 2012.

A recent investigation by the *Scranton Times-Tribune* found that six of the Pennsylvania's 14 cyber charter schools have never been reviewed by state auditors.

Recommendations & Conclusion

Recommendations

Pennsylvania has more students attending cyber charter schools than any other state. While the sector has grown dramatically, the way the Commonwealth funds cyber charters has remained static for nearly a quarter century. Today, school districts pay the same tuition to cyber charters and brick and mortar using a formula that is unrelated to the cost of delivering an online education.

National experts recommend that "given the distinct characteristics of the online learning environment and the students who attend, states should consider creating a new regulatory framework specifically for online charter schools, rather than having them operate as conventional charter schools"[106] and Pennsylvania could be a bellwether state. The following funding reform recommendations are grounded in the proven practices and reforms implemented in other cyber states.

1) Stop paying twice for online education in school districts that already offer public virtual learning programs.

One lasting effect of the global pandemic is that over 90% of Pennsylvania school districts offer online educational programs. By law, programs offered by school districts are 100% staffed by state-certified teachers as opposed to 75% for cyber charter schools. In addition, the close connection between district-run virtual and in-person classrooms makes it possible for students to maintain contact with their friends and teachers, making it easier for students to transition back to in-person learning.

In 2002, when Pennsylvania's Charter School Law was amended years before the COVID pandemic, school districts did not have the capacity to deliver online education. Today, schools have built that capacity largely in response to COVID. Taxpayers cannot afford to pay for redundant, parallel systems or the associated property tax hikes. A more rational approach would be to prohibit public funding for online charter schools if a student's home district already offers an online education program whose educational track record is as good or better than the charter school.[107]

2) Create a state virtual school as a centralized source of online courses, curriculum, and supports

Twenty-one states have supplemented their cyber education model by creating a state virtual school with more states in the pipeline. Beyond delivering courses to students on a full-time or supplemental basis, state virtual schools can be a centralized source of curriculum, learning management systems, technology support, and professional development for online educators. In this way, a Pennsylvania state virtual school could be a true public good by providing online courses and resources at low or no cost to school districts and cyber charter schools. Alternatively, the state could expand the capacity of the existing 29 Intermediate Units that are already skilled in providing administrative and technology services to schools and school districts as well as online courses to tens of thousands of students annually.

Florida's state virtual school delivers at scale: Florida Virtual School (FLVS) is the oldest and largest state virtual school in the country, accounting for over 2 million course completions since it opened in 1997. In addition to enrolling students on a full-time or flex basis, FLVS provides curriculum and support services to charter schools and school districts including digital course licensing, access to learning management systems, professional development, and learning labs. The economies of scale can lead to significant savings. For example, a consortium of Ohio school districts made a group purchase of online course from FLVS that yielded $500,000 in savings. FLVS uses a performance-based funding model that requires students to successfully complete a course in order for FLVS to receive state funds.

3) Audit cyber charters for enrollment and financial performance on an annual basis.

Cyber enrollment scandals have caught the attention of lawmakers across the country, often resulting in multimillion judgements against cyber operators. Cyber charter schools in Pennsylvania have largely been spared from regular reviews by the state Auditor General. Too much is at stake to continue this practice. Pennsylvania should establish a statutory requirement for annual audits. In the meantime, State Auditor Timothy DeFoor should set a schedule to audit cyber charters, beginning with the schools with the largest budgets.[108]

Michigan's performance audit finds many missing students: In September 2021, the Michigan Auditor General released the third audit of a three-part series on virtual learning. The audit contained the shocking finding based on a review of seven cyber charters, there was no documentation that over half - 52% - of the students had participated in a single class. The audit further determined that in 23% of the classes in the spring course period, the schools could not demonstrate that any students had participated in the course. Findings by an independent Auditor General shined a bright light on the issue of enrollment and attendance verification that already resulted changes by the Michigan Department of Education and discussions about further action by the legislature.

4) Align cyber tuition rates with the actual costs of providing an online education.

This commonsense principle should apply not just to cyber charter schools, but to all taxpayer funded services. Three national charter school associations – the National Alliance for Public Charter Schools, the National Association of Charter School Authorizers, and 50CAN – agree and have called for aligning per pupil funding allocations with the actual costs of educating virtual school students.[109] A large body of empirical evidence demonstrates that cyber costs are roughly 25% to 30% lower than brick and mortar schools and states are increasingly acting on this evidence.

In 2017-18, 17 bills were introduced in state legislatures aiming at limiting or reducing per-pupil funding for online charter schools, with lawmakers in Louisiana, Oklahoma, New Mexico, and Michigan all calling for a 20% to 25% reduction in per-pupil funding rates.[110]

5) Establish a uniform, statewide cyber tuition rate.

Pennsylvania school districts pay vastly disparate tuition rates to cyber charters. In the current school year, for example, cyber tuition payments range from $8,917 and $23,799 for students who do not receive special education services and $18,599 to $58,391 for special education students. Because of the virtual setting, it costs the cyber charter the same amount of money to offer online courses to a student regardless of their location. There is no reason that taxpayers in one school district should pay over twice as much as taxpayers in another district for the exact same services.

PA Statewide Tuition Proposal: In Pennsylvania, House Bill 272 would create a single $9,500 per-student tuition rate that school districts would pay cyber schools, eliminating disparities across districts and saving local taxpayers $210 million a year. The $9,500 rate is based on the actual operating costs of the three highest performing cyber charter schools. The Pennsylvania Association of School Administrators has endorsed this proposal along with the recommendation that future increases should be tied to a credible inflation index, not school district expenditures. This proposal, which has bipartisan support in the House, has also been introduced as Senate Bill 27.

Ohio, Georgia, and South Carolina currently use statewide standardized rates. Similarly, the Illinois Charter School Commission on Virtual Schools concluded "there is no reason to differentiate funding based on a student's home district. Instead, the state should determine the amount it is willing to pay per pupil for a statewide virtual school and make it consistent across districts."[111] Legislation has been introduced that would address the disparities in Pennsylvania's system by establishing a statewide cyber tuition rate for non-special education students.

6) Adopt a pay for performance system to link funding to measurable student outcomes.

All 14 of Pennsylvania's cyber charter schools are designated as in need of improvement on the state's accountability plan. One of the most obvious ways to hold schools accountable is to change the payment structure. Pennsylvania should follow the national trend of shifting to pay cyber charter schools based on content mastery or course completion for individual students. While the mechanics and benchmarks can be customized by individual states, the core principle is that funding should be linked to measurable student learning outcomes instead of enrollment alone.

Early steps in developing a Pennsylvania-based system include identifying potential outcome measures and assessments and modelling the impact on cyber charter revenues using historical data.

New Hampshire is a leader in performance-based funding: New Hampshire's virtual charter school system is a national model for performance-based funding. Its Virtual Learning Academy Charter School (VLACS), one of the largest statewide virtual schools in the country, is the sole charter school provider for online education in the state. New Hampshire has adopted a pay for performance system where payments are based on competency milestones within courses and courses are aligned to state academic content standards. The Aurora Institute describes VLACS as "among the best examples of performance funding anywhere in the country."

7) Create a Requests for Proposal (RFP) system for new applicants to promote quality and align growth.

Pennsylvania's Charter School Law allows unsolicited applications for new cyber charter schools without requiring prospective new operators to be competitively evaluated. Instead, an individual, teacher, parent, non-sectarian college or university, or nonprofit corporation can submit an application for a new statewide charter to the state education agency regardless of need or system capacity. While the Department reviews each application on an individual basis, it cannot compare the relative merits of new applications with each other or existing cyber charter providers.

To the extent that more cyber charters are necessary and desirable, replacing the current system with a Request for Proposal-based approach would inject more competition in the process and allow the best schools to grow. Upon determining a need for additional seats, the PA Department of Public Education could issue a detailed RFP document describing requirements and performance expectations. The resulting competitive bidding process would allow the state education department to award a contract to the bidder providing the strongest proposal based on quality, effectiveness, and potentially even price.[112] This would more closely mirror the way that other departments evaluate and procure public services.

8) Make funding reform part of comprehensive charter school legislation to give students greater access to high-quality charter schools.

The efficacy of any reform to Pennsylvania's funding system can not be evaluated in isolation. Funding is a means to the ends where the ultimate goal is improving educational quality. A charter school regulatory package is now under consideration, but most observers agree that statutory change is needed to truly reform the system.

In 2017, Children First (formerly PCCY) published *Expanding High Quality Charter School Options* [113] that established a four-part framework for modernizing Pennsylvania's law:

1) Approve only high-quality applicants

2) Let high-quality charters grow

3) Protect students and taxpayers from failure by closing failing charter schools

4) Give students stability by establishing predictable criteria for reviewing charter school applications and renewal

This framework defines a set of standards about quality and, in turn, applies these standards to decisions about funding. High-performing charters would have the flexibility to expand, the renewal process would be clarified for schools that are performing moderately well, and schools that consistently fail to meet standards have a chance to improve or risk closure. Over time, this system would give students greater access to high-quality charter schools.

In 2013, Texas adopted sweeping legislation to increase the number of high-performing charters and close down poor performers that aligns with Children First's framework for expanding high-quality charter school options. The reform, sponsored by now-Texas Lt. Governor Dan Patrick, stipulates that charter schools that earn unacceptable academic performance ratings for the three preceding years, lower than satisfactory financial performance ratings for the past three years, or any combination of these ratings for the three preceding years will be automatically closed, subject to an administrative hearing.[114] This new approach has had a transformational impact and, over the last seven years, 40 charter schools have been closed at the same time that the cap on open-enrollment charter schools has increased.[115] The time has come for Pennsylvania to follow this example to improve the effectiveness of charter schools overall and ensure that all students can attend high quality schools.

Texas raised the bar on charter school performance by:

- Enhancing applicant approval standards
- Specifying the academic, operational, and financial performance expectations by which a school will be evaluated, including standards for renewal, non-renewal, and revocation
- Mandating the closure of schools with unacceptable performance for the three preceding years
- Creating a renewal process with clear expectations for schools at each performacne level
- Expanding the charter school cap to allow quality schools to grow

Conclusion

Pennsylvania is a leader in cyber education when measured in terms of enrollment. Enrollment in cyber charter schools more than doubled from 24,000 in 2010 to 38,300 in 2020 before surging by 59% in 2021 in the wake of the pandemic. Parental concerns about whether schools would open and stay open were a major factor behind the surge in enrollment. The persistence of COVID and its multiple variants means that this trend is likely to continue, especially in light of pervasive advertising on TV and other media by cyber charter schools.

Pennsylvania, however, is not a leader when it comes to the oversight, regulation, and rationality of the funding system for the cyber sector. According to the National Education Policy Center, "the Pennsylvania legislature has consistently been a frontrunner in attempts to calibrate funding formulas as virtual charter schools have grown, yet their efforts to enact bills addressing funding have repeatedly failed."[116] Governor Wolf has introduced cyber tuition reform proposals in successive years only to see them languish in Committee. The influence of big money contributors further complicates an already difficult process.

One option to break the logjam is to create a Cyber Charter School Funding Advisory Commission. Modeled on the successful Basic Education and Special Education Funding Commissions, the Cyber Charter School Funding Advisory Commission would be made up of legislators from both parties and representatives of the Administration and would by charged with recommending changes to the Pennsylvania Charter School Law in a defined period of time. The Commission's recommendations would be considered by the General Assembly where they could be approved, rejected, or further amended. If recent precedent is any guide, both the Basic Education Funding Commission and Special Education Funding Commission successfully generated recommendations that were adopted by the legislature.

This report is intended to help advance the debate – with or without a funding commission – by identifying ideas and strategies that have worked in other states.

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Children First
990 Spring Garden Street
Suite 200
Philadelphia, PA 19123
215-563-5848