



# The costs of charter and cyber charter schools

**Updated January 2014**

Research and policy implications for Pennsylvania school districts

Pennsylvania School Boards Association



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## Updated January 2014

### Introduction

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With the passage of Act 22 of 1997, Pennsylvania became the 27th state to enact a charter school law. Since the passage of that law, there has been continuous debate over the funding of charter schools. However, the most significant debate has centered on funding cyber charter schools. The centerpiece of the debate is the argument that supporters of the state's current system of charter schools used – the money should follow the student. The legislation establishes a formula which provides for a tuition calculation for dollars to follow the student.

This paper updates an earlier examination of the financial impact of charter and cyber charter funding. Do charter and cyber charter schools save districts money? Does the model operate as designed – the money following the student? If the model is operating as designed, then are districts saving money?

#### **Calculating payments under the charter law**

Passage of Act 22 of 1997 did not anticipate cyber charters. The charter law does not require independent audits as required for school districts. Charters are treated as a local education agency, but do not have taxing authority. This lack of taxing authority separates accountability from those that raise the funds to pay charters. Expenditures in traditional public schools have local oversight through the elected school board; however, the charter schools have appointed boards with no oversight from the public schools that are paying the bill.

Legal requirements for charter student payment were established in Act 22 of 1997.

The law requires payment to charter schools by the district of residence of the student. This law provides that no tuition will be charged directly to the student and that school districts must pay the cost to the charter (24 PS § 17-1725 A). Pursuant to the provisions of the law, the calculation is based on the prior year budget with certain expenditures being excluded from the calculation. The law also includes calculations for additional payments for special education students.

Requirements for charter school payments are substantially different from the tuition calculations for charging students of other

districts. To calculate intradistrict tuition, districts calculate a single rate with no alteration for special education students. Second, the district charges are based on its cost without regard for costs in the sending districts. Additional calculations also are mandated for vocational education students. The calculation of tuition for students of another district are found in 24 PS § 25-2561, 24 PS § 25-2562 and 24 PS § 25-2563.

For district payments to charter and cyber charter schools, the basis for calculation is the district total expenditures per average daily membership minus selected expenditure. Federal fund expenditures are eliminated from the educational programs. Other expenditures that are excluded include: residence nonpublic

school programs; adult education programs; community/junior college programs; student transportation services; special education programs; and facilities, debt and transfers. Detailed calculation requirements for charter school payments are presented in Appendix A. This means that the districts are not paying the actual charter school cost, but rather they are paying district cost. For special education students, payments are based on the prior year average daily membership multiplied by 16% (total estimated statewide special education per school enrollment). The result is then divided into the special education program spending (the 1200 account) to get an average cost per student.

## Demographics of charter and cyber charter

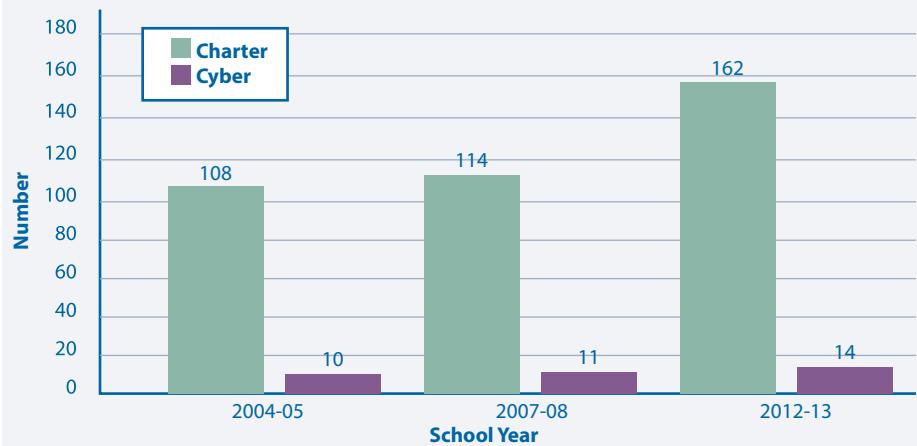
### Number of charter schools over time

There are substantially more “brick and mortar” charters than cyber charters. However, the cyber charters by their very nature are able to enroll substantially more students from more districts because of the technology application.

**Chart 1** shows the number of charter schools over time. With the passage of the Charter School Law in 1997, the number of “brick and mortar” facilities grew quickly. Over time some have closed and others have opened.

Between the 2004-05 and 2007-08 school years, the number of charter schools has increased only slightly from 108 to 114. Between 2007-08 and 2013-14, the number increased to 162. The number of cyber charter schools increased by three between 2004-05 and 2013-14.

**Chart 1**  
Number of charter schools by type



\*Includes Agora Cyber Charter which is being challenged by the PA Dept. of Education for possible charter revocation.

Source: [www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357) Charter School Enrollment (October 1 Count): 2000/01 to 2007/08 (Excel). [www.portal.state.pa.us/portal/server.pt/community/charter\\_schools/7356](http://www.portal.state.pa.us/portal/server.pt/community/charter_schools/7356) Charter school enrollments. 2013-13 Charter school listing (pdf) accessed 11-05-13.

### Student enrollment patterns

As the number of schools increased, the number of students attending these schools also increased. **Chart 2** (on page 4) shows the enrollment pattern of students in the charter schools. As shown in Chart 2, the number of

regular education students increased by more than 20,000 between 2004-05 and 2007-08. There was a small decline for 2008-09 and then increased by more than 35,000 through 2011-12. The number of special education

students more than doubled from 4,461 to 9,254 between 2003-04 and 2007-08. Special education students also declined slightly in 2008-09 but increased through 2011-12.

**Table 1** shows the percent change in enrollment for students attending charter schools. Because the money follows the student, the increases can have a dramatic impact on an individual school district. The special education enrollments increased faster than regular students in each year presented. However, the special education students represent approximately 16% of the total students enrolled in charter schools. This is about the same as the distribution of special education students statewide.

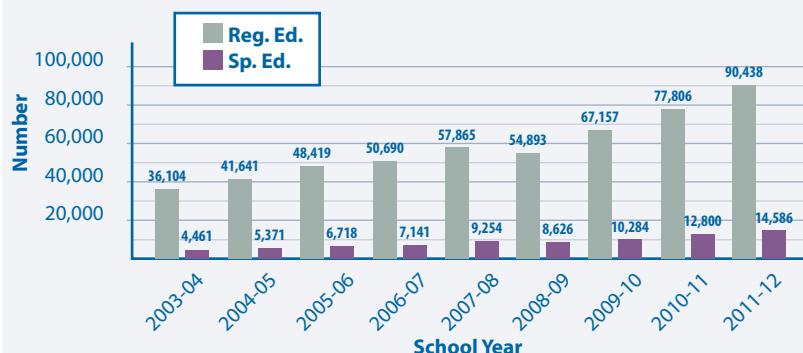
### School districts and charter enrollment

How many school districts are feeling the impact of charter and cyber charter school enrollments, and to what extent? The answer is: Every school district today has at least one student enrolled in a charter school. There are more enrollments in cyber compared to “brick and mortar” charter schools, about 74% to 26% respectively.

The pattern of student enrollment varies substantially across the state. “Brick and mortar” charter schools tend to be concentrated in more urban areas of the state, such as Philadelphia and Pittsburgh. As the largest school districts in the state, it would be expected that they would have the most students attending.

Over the years, the number of districts throughout the state with charter school enrollments has grown steadily. **Table 2** shows the distribution of school districts by the number of students enrolled in charter schools including cyber charter enrollments. Over time, as the charter enrollments increased, the number of districts with less than 30 students declined. In 2007-08, there were 229 districts with fewer than 30 students enrolled in charter schools. By 2011-12, the number of schools with fewer than 30 students had declined to 137. Every district had at least one student enrolled in a charter school in the 2006-07, 2007-08 and 2011-12 school years.

**Chart 2**  
**Student enrollment in charter schools by type of student**



Source: [http://www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2000/01 to 2007/08 (Excel). 2008-2012, October 1 Charter School Enrollment (Excel). Accessed 11-05-13.

**Table 1**  
**Percent Change  
in Enrollment in Charter Schools**

	Total	Reg. Ed.	Sp. Ed.
2004-05	15.89%	15.34%	20.40%
2005-06	17.28%	16.28%	25.08%
2006-07	4.89%	4.69%	6.30%
2007-08	16.06%	14.15%	29.59%
2008-09	-5.36%	-5.14%	-6.79%
2009-10	21.92%	22.34%	19.22%
2010-11	17.00%	15.86%	24.47%
2011-12	15.91%	16.24%	13.95%

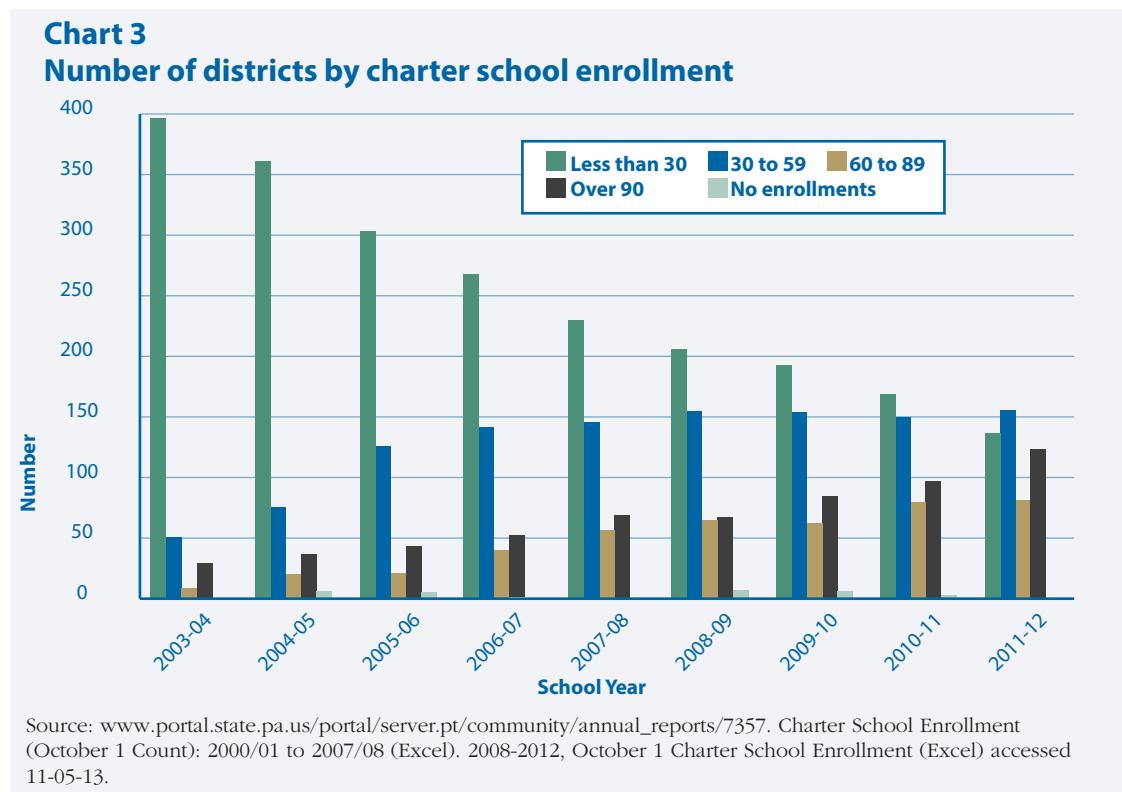
Source: [www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2000/01 to 2007/08 (Excel). 2008-2012, October 1 Charter School Enrollment (Excel). Accessed 11-05-13.

**Table 2**  
**Distribution of  
districts by charter school enrollment**

Year	Less than 30	30 to 59	60 to 89	Over 90	No enrollments
2003-04	396	51	9	30	14
2004-05	361	75	20	37	7
2005-06	303	126	21	44	6
2006-07	267	142	39	52	0
2007-08	229	145	57	69	0
2008-09	206	153	65	68	8
2009-10	192	153	63	85	7
2010-11	169	150	80	97	3
2011-12	137	156	82	124	0

Source: [http://www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2000/01 to 2007/08; (Excel). 2008-2012, October 1 Charter School Enrollment (Excel). Accessed 11-05-13.

**Chart 3** is a graphic representation of the data contained in Table 2. The graphic display shows the shift over time for more students moving from districts to charters. This graphic presentation also shows that each of the enrollment groups has increased. The majority of enrollments are still below 59 students.



## Enrollment by type of charter

**Table 3** shows the 2011-12 distribution of students between “brick and mortar” and cyber charter schools. In 2011-12, cyber charters enrolled 30.7% of all charter school students while “brick and mortar” charter schools enrolled 69.3%. The number of cyber charter enrollments increased from 17.31% of total charter students to 30.7% of total charter students. Cyber charters enrolled a slightly higher proportion of special needs students enrolling 32.5% of the total special needs students. This shows substantial growth in the special needs population over 2003-04 shown in Table 4.

**Table 4** (on page 6) shows the distribution of students between “brick and mortar” and cyber charter schools. The distribution of students is significantly different from the 2007-08 year data presented in Table 3. Comparing the data in the

**Table 3**  
**2011-12 Enrollments by type of charter**

	Regular Education	Special Education	Total
Cyber enrollment			
Number	27,460	4,745	32,205
Percent	30.4%	32.5%	30.7%
Brick & Mortar			
Number	62,978	9,841	32,205
Percent	69.6%	67.5%	69.3%
Total enrollment			
Number	90,438	14,586	105,024
Percent	100.00%	100.00%	100.00%

Source: [www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2008-2012, October 1 Charter School Enrollment (Excel) accessed 11-05-13.

two tables shows the reversal of percent enrollment between “brick and mortar” and cyber charter enrollment between 2003-04 and 2007-08.

### Charter students from district buildings

**Table 5** shows the number of buildings sending fewer than 30 students to charter schools. This table also shows the number of those buildings as a percent of total buildings with students attending charter schools.

The data presented in Table 5 indicates that over the last four years, more than 90% of all buildings had less than a classroom full of students (30) attending charter schools. The low number of students from each building supports the inability of charter schools to save districts’ money.

**Table 4**

### 2003-04 Enrollments by type of charter

	Regular Education	Special Education	Total
Cyber enrollment			
Number	6,526	493	7,019
Percent	18.08%	11.05%	17.31%
Brick & Mortar			
Number	29,578	3,968	33,540
Percent	81.92%	88.95%	82.69%
Total enrollment			
Number	36,104	4,461	40,559
Percent	100.00%	100.00%	100.00%

Source: [www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2000/01 to 2007/08 (Excel).

### Payment for charter students

The legal requirements for tuition payments resulted in a substantial amount of school district funding being transferred to charter schools. Additionally, the state subsidy for tuition (Account 7140) was eliminated for the 2010-11 school year. Tuition payment is the same for “brick and mortar” charters as it is for cyber charters. **Table 6** shows the total tuition payments for regular and special education students for 2006-07 through 2011-12 along with total payments. The tuition payments are based on student counts multiplied by the tuition rates calculated by the PA Department of Education pursuant to Act 22 of 1997 for each district for the days the students attended the charter school.

**Table 5**

### Charter school attendance from public school buildings

	Buildings with fewer than 30 students in charters	Total Buildings	Percent of Total Buildings
2008-09	2,954	3,177	93.0%
2009-10	3,409	3,683	92.6%
2010-11	3,474	3,797	91.5%
2011-12	3,584	3,949	90.8%

Source: [www.portal.state.pa.us/portal/server.pt/community/annual\\_reports/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports/7357). Charter School Enrollment (October 1 Count): 2008-2012, October 1 Charter School Enrollment (Excel) accessed 11-05-13.

**Table 6**

### Tuition payments to charter schools

	Tuition to Charter Schools: Non-special	Tuition to Charter Schools: Special	Total Expenditure	Percent Increase
2006-07	#	#	\$527,943,681	n/a
2007-08	#	#	621,151,495	5.6%
2008-09	#	#	717,306,015	6.1%
2009-10	\$631,483,811	\$174,137,927	805,621,739	15.4%
2010-11	743,619,296	216,084,416	959,703,712	22.0%
2011-12	850,257,860	294,991,093	1,145,248,954	35.3%

Source: [www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049) Tuition schedule 2006-07 to 2011-12 accessed 11-12-13.

# detailed data not available for these years.

**Table 7** presents the detail of tuition payments including payments to other districts made by school districts for all types of tuition.

As shown in Table 7, payments to charter schools accounted for 42.3% of the total tuition payments in 2006-07 payments for all forms of tuitions. By 2011-12 this had increased to 58.4%. The next largest tuition payment was to the vo-techs. The charter tuition was less than half of the vo-tech tuition in 2006-07 but was more than double the vo-tech tuition in 2011-12.

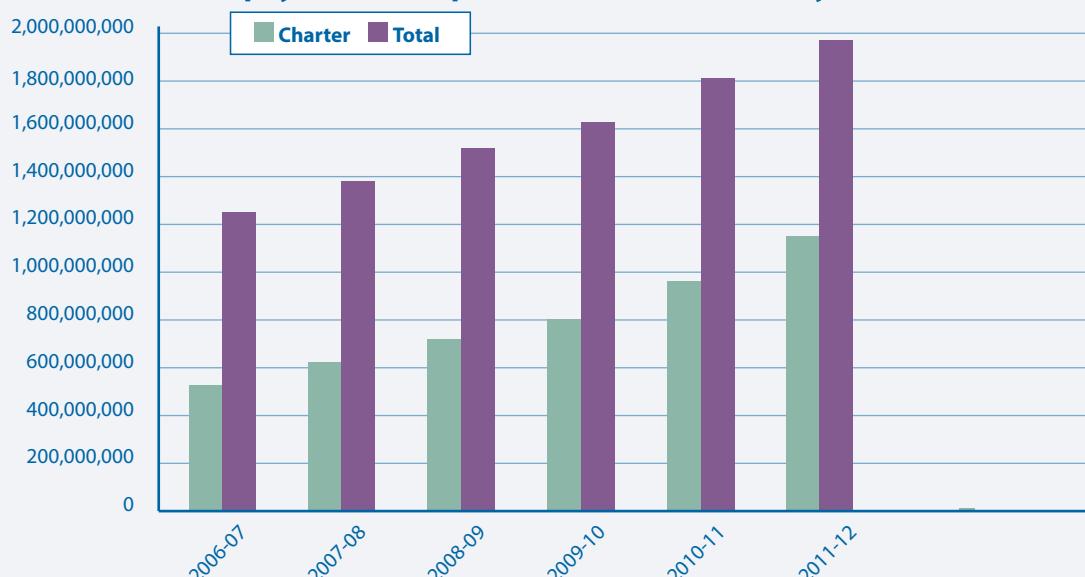
**Chart 4** shows total of all district tuition payments and the amount of payment for charter schools. The charter school amount does not account for state subsidy. Included in the charter payments are payments to both “brick and mortar” and cyber for both special education and regular education. The growth in total tuition is being driven by the charter school expenditures. A detailed analysis shows that the slope of the increase is almost identical for both trends further supporting the fact that charter tuition is driving total tuition spending.

**Table 7**  
**Total school district tuition payments by type of payment**

Object Title	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
561 – Other SD in State	9.9%	9.9%	9.1%	7.8%	7.7%	6.6%
<b>562 – Charter Schools</b>	<b>42.3%</b>	<b>45.1%</b>	<b>47.4%</b>	<b>49.5%</b>	<b>53.1%</b>	<b>58.4%</b>
563 – Nonpublic Schools	4.1%	4.3%	3.9%	3.7%	3.9%	3.6%
564 – Vo-Techs	28.5%	26.0%	24.6%	24.8%	22.6%	20.3%
566 – Inst. of Higher Ed	2.6%	2.4%	2.3%	2.1%	1.9%	1.4%
567 – Private Schools	5.6%	5.4%	5.5%	5.3%	5.0%	4.7%
568 – PRRIs & Detention	5.6%	5.5%	5.6%	5.2%	4.5%	3.8%
569 – Other	1.5%	1.4%	1.6%	1.5%	1.1%	1.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: [www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049) Tuition schedule 2006-07 to 2011-12 accessed 11-12-13.

**Chart 4**  
**Total tuition payments compared with total charter/cyber charter tuition**



Source: [www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049) Tuition schedule 2006-07 to 2011-12 accessed 11-12-13.

**Chart 5** shows the charter tuition payments (shown in detail in Table 7) as a percent of the total tuition payments made by school districts. The charter tuition payments increased from about 33% of total tuition payments to 45% of total tuition payments made by school districts between 2003-04 and 2007-08.

The data in Chart 4 and the percent in Chart 5 show that the tuition payments for charter schools are increasing year to year.

**Table 8** shows the net charter school cost to the districts from 2006-07 to 2011-12. Beginning in 2011-12, the state subsidy for charter tuition was eliminated. After reducing the charter school tuition by the amount of state subsidy for charter school tuition, the districts paid a net amount of \$434.0 million dollars in 2006-07. In 2011-12, with the loss of state subsidy, the net district cost for charter school tuition was \$1.145 billion. The combination of rising cost because of the charter tuition calculation and

the loss of state subsidy resulted in the districts seeing a 35.3% increase in tuition supported by district spending.

**Chart 6** (see page 9) shows the summary of the payments made by the school districts to the charter schools. On the low end, districts paid \$5,217 per student in 2006-07; the median was \$7,583 and the high was \$16,182. For 2013-14, districts will pay a low of \$6,405 to a high of \$16,390 with a median of \$9,191. While the largest amount expended did vary between years, the low and median show an increasing trend.

**Chart 7** (see page 9) shows the summary of district payments to charter schools for special education students. While the dollars are larger for special education tuition payments, the patterns for special education follow the same patterns as regular education tuition payments. The minimum payment amount increased steadily as did the median expenditure and the maximum varied across years.

**Chart 5**  
**Charter/Cyber charter tuition as percent of total tuition**



Source: [www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049) Tuition schedule 2006-07 to 2011-12 accessed 11-12-13.

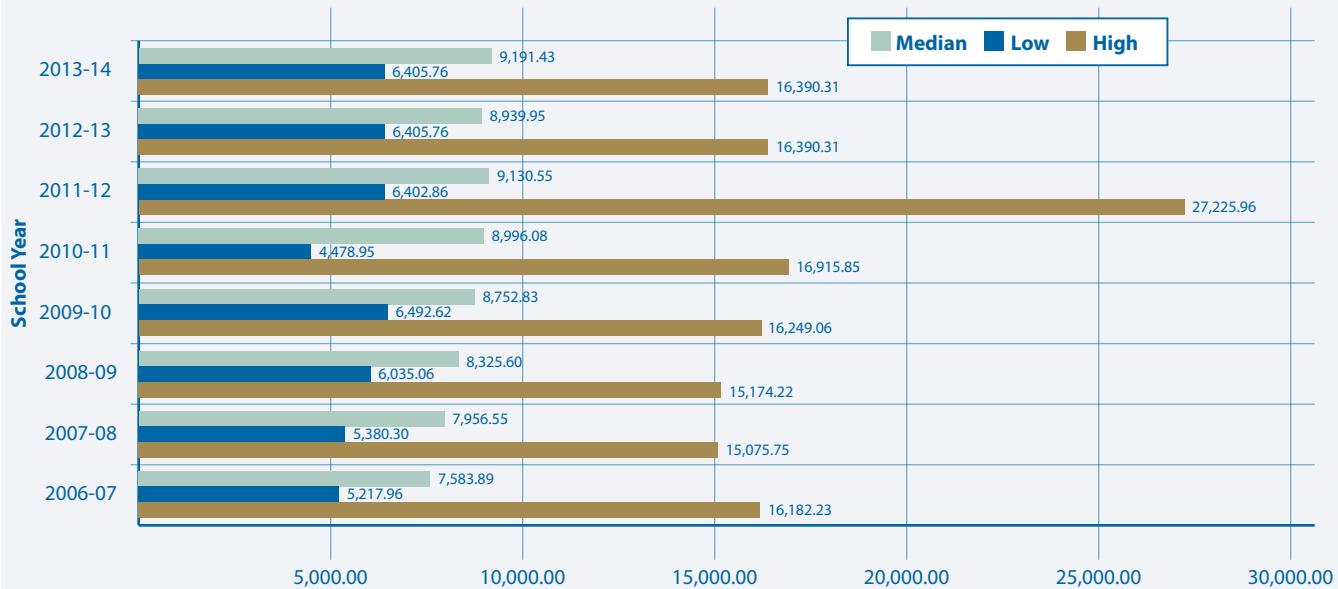
**Table 8**  
**Net cost of charter school tuition**

	Net district cost	% Change
2006-07	434,026,584	
2007-08	459,637,556	5.6%
2008-09	489,243,436	6.1%
2009-10	578,053,318	15.4%
2010-11	740,700,736	22.0%
2011-12	1,145,248,954	35.3%

Source: [www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049) Tuition schedule 2006-07 to 2011-12 accessed 11-12-13.

## Chart 6

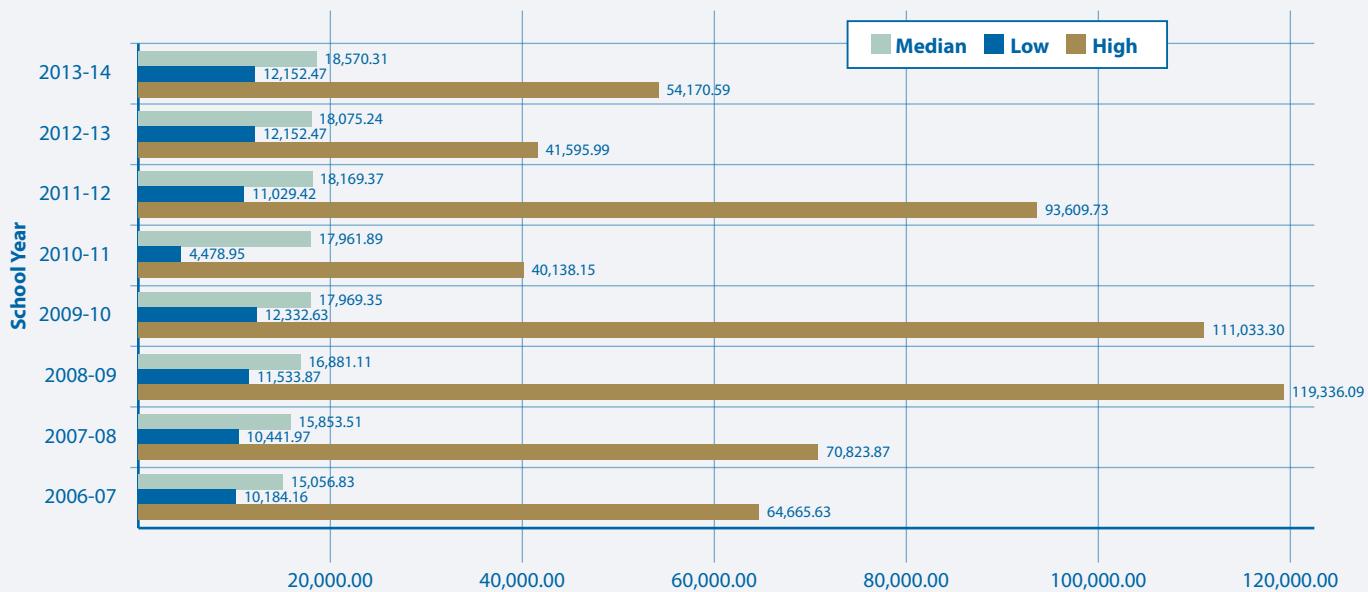
### Summary of payments to charter schools for regular education



Source: [www.portal.state.pa.us/portal/server.pt/community/charter\\_school\\_funding/8661](http://www.portal.state.pa.us/portal/server.pt/community/charter_school_funding/8661) Selected Expenditure per Average Daily Membership 2000-2001 through 2010-2011; 2011-2012; 2012-2013; and 2013-2014 accessed 11-13-13.

## Chart 7

### Summary of payments to charter schools for special education



Source: [www.portal.state.pa.us/portal/server.pt/community/charter\\_school\\_funding/8661](http://www.portal.state.pa.us/portal/server.pt/community/charter_school_funding/8661) Selected Expenditure per Average Daily Membership 2000-2001 through 2010-2011; 2011-2012; 2012-2013; and 2013-2014 accessed 11-13-13.

# Do charter schools save districts money?

The key question that has been debated many times is: Do school districts save money when students enroll in charter and cyber charter schools?

The numbers show that it is virtually impossible for a single dollar of savings to be realized in school district budgets when students attend charter schools.

Charter schools can and do add expense for a school district. Why does this happen? Each year, districts make payments to charter schools. They use a formula to calculate their per-student educational costs, and pay that amount for each student from within the district enrolled in charter schools. Charter schools do not charge a standard rate for their educational services. In fact, the amount paid to charter schools varies greatly by school district, and is often completely unrelated to the actual operational costs incurred by charter schools.

The problem is compounded by the fact that in most cases, less than 30 students from each district building attend charters, meaning districts are unable to reduce overhead costs, such as heating and electricity. Neither are school districts able to reduce the size of their faculty or staff. Furthermore, many of the students who choose to attend charter schools may have previously been home-schooled or enrolled in non public and private schools, representing an entirely new expense for school districts.

- Tuition payments for charter school students are now over \$1.4 billion and effective with the 2011-12 year, charter school subsidies to school districts were eliminated.
- Payments to charter schools accounted for 58% of the actual 2011-12 payments for all forms of tuitions.
- Districts pay the same amount to “brick and mortar” as they pay to cyber charter schools. The difference is what the individual districts pay to the various

schools. On the low end, districts paid \$5,217 per student in 2006-07; to the low was \$6,405 in 2013-14. While the largest amount expended did vary between years, the low and median shows an increasing trend.

The definition of charter tuition from the PA Department of Education website is:

(2) For non-special education students, the charter school shall receive for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year, as defined in section 2501(20), [FN1] minus the budgeted expenditures of the district of residence for nonpublic school programs; adult education programs; community/junior college programs; student transportation services; for special education programs; facilities acquisition, construction and improvement services; and other financing uses, including debt service and fund transfers as provided in the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems established by the department. This amount shall be paid by the district of residence of each student. <http://weblinks.westlaw.com/result/default.aspx?cite=UUID%28NAE8FAE1034%2D2F11DA8A989%2DF4EECDB8638%29&db=1000262&findtype=VQ&fn=%5Ftop&ifm=NotSet&pbc=4BF3FCBE&rlt=CLID%5FFQLT21481201913154&rp=%2FSe arch%2Fdefault%2Ewl&rs=WEBL10%2E03&service=Find&spa=pac%2D1000&sr=T C&vr=2%2E0>

The detailed state calculation of charter tuition is shown in Appendix A.

The charter tuition calculation is the same for both cyber and “brick and mortar” charters. The difference in the calculations is weighted

in favor of paying more for charter tuition by including more cost elements in the charter school tuition calculation than in the actual instructional expense calculation.

**Table 9**  
**Comparison of AIE and Charter Tuition Elements**

Item	AIE	Charter Tuition
Total Expenditures	Basis for calculation	Basis for calculation
Exclude from Calculation:		
Health Services	Yes	No
Transportation	Yes	Yes
Debt Service	Yes	Yes
Capital Outlay	Yes	Yes
Homebound Instruction	Yes	No
Early Intervention	Yes	No
Community/Junior College	Yes	Yes
Payments to Vo-Tech Schools	Yes	No
State Driver Ed. Subsidy	Yes	No
Selected Federal Revenue	Yes	No
Local Revenue from tuition	Yes	No
Revenue from other LEAs	Yes	No
Refund of prior expenditures	Yes	No
Special Education	Yes	Yes
Vocational Expenditures	Yes	No
Non Public School Programs	No	Yes
Adult Education	No	Yes
Legal Reference	24 PS 25-2501 et. seq.	24 PS 17-1724 A

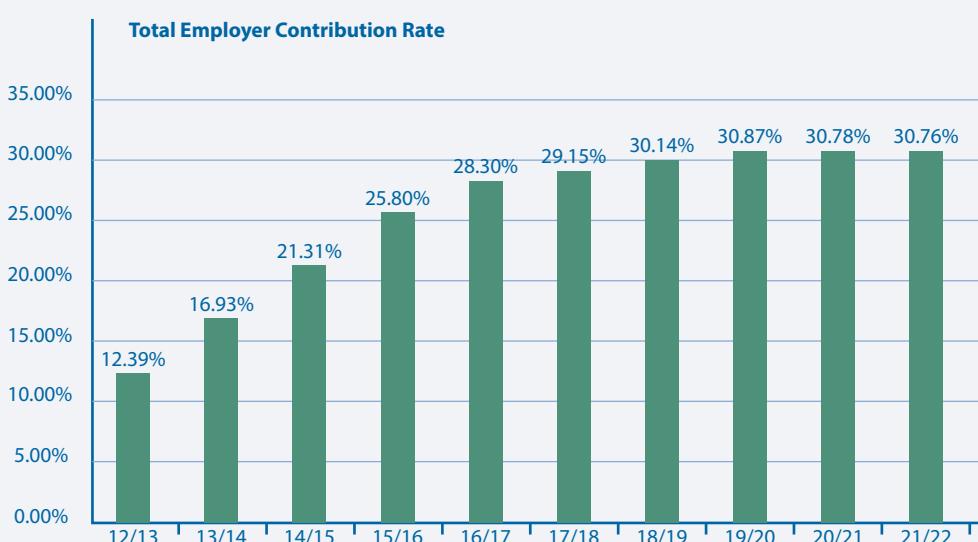
### **Employer retirement rate increase**

The estimated Public School Employee Retirement System (PSERS) rate increases for employer contribution to employee retirements will also be required of the charter schools for their employees. However, the impact will roll back to the districts through the tuition calculation. The tuition calculation includes salary and benefits of employees of the district. Charter schools will see revenue from increased tuition calculations and this will be without regard to a charter school's actual needs.

As the rates jump substantially, see Chart 8, the tuition rates also will increase, thus producing more revenue to the charters and impose even larger costs on the district and its taxpayers.

As districts costs increase due to increased pension contribution, the tuition will increase correspondingly. Thus, the district taxpayers will be paying higher taxes to offset the pension cost for both the district and the charter schools.

**Chart 8**  
**PSERS projected rate increases**



Source: [www.psers.state.pa.us/content/pfr/resources/fact.pdf](http://www.psers.state.pa.us/content/pfr/resources/fact.pdf) Projected employer contribution rate, Retrieved 6-27-13.

# Summary

Both types of charter schools are intended to serve as important school choice options available to parents and students and interest in these schools continues to grow. Unfortunately, almost all funding for charter schools is provided by local school districts, which places a significant financial burden on districts' resources.

Supporters of the current system claim that enrollment in charter and cyber schools saves school districts money, and that there is no need for legislative change. This research shows that school districts are not saving money. School districts do not realize a cost-savings in their budgets when students attend charter schools. In most cases, only a handful of students from each district attend charters, meaning districts are unable to reduce overhead costs. Neither are school districts able to reduce the size of their faculty or staff.

The current system of paying for charter schools based on the analysis contained in this paper appears to be flawed. The payment that a school district must make for each of its resident school-age children enrolled in a charter school typically is more than the district spends for the instruction for students in traditional public schools. The higher costs result from Act 22's formula for determining how much money "follows the child" to a charter school: the child's district of residence must pay its budgeted total expenditure per average daily membership, less its outlays for nonpublic school programs, special education, adult education, facilities acquisition, construction and improvement, debt service and community/junior colleges. The resulting figure is referred to as the "selected expenditure" per student. The assumption is that by removing from a district's total spending those costs that do not apply to charter schools, the product (the selected ex-

penditure) will represent a reasonable estimate of the cost of education in charter schools.

That approach is flawed for several reasons. First, it assumes that every program or activity not deducted in the calculation is a program that charter schools actually operate and a program for which they should receive funding from the district. That is not the case. For instance, vocational and early childhood education expenses, to cite just two, are not removed from the district's total outlays in computing the selected expenditure figure. In effect, charter schools are receiving funding from a district for such expenses even though they may not actually operate the same program. Charter schools by law are considered local education agencies and in that capacity are eligible to receive direct funding for a number of programs. If a charter school did provide early childhood programs, for example, it could apply for and receive funding on its own. In effect, Act 22 creates the potential for double-dipping, since charter schools are eligible to receive some funding both as a direct grant recipient as well as from school districts as part of the selected expenditure calculation.

This double-payment problem also is evident in the area of retirement and Social Security for charter school employees. The commonwealth pays at least one-half of the employers' share of those costs for all public school employees. The state contribution, therefore, is included in the school district's total outlays and, as a result, is passed onto charter schools because the formula in Act 22 does not require that it be deducted in determining the selected expenditure. The double-dipping issue arises when the state makes its payment directly to the charter school for the retirement and social security costs for its employees.

# Conclusions

- The number of students attending charter schools shows a steady increase between 2003-04 and 2011-12.
- The basis of calculating the tuition payment as established in state law is weighted in favor of the charter schools. It supports double dipping payments for the employer share of retirement and social security.
- Districts are paying to send more students to cyber than “brick and mortar” charter schools.
- The net cost to districts for students attending charter schools increased from \$434 million in 2006-07 to \$1.145 billion 2011-12.
- Between 2003-04 and 2007-08, state subsidy for charter schools increased by \$116.3 million. Over the same period, district spending increased by \$336.7 million. However, in 2010-11 the state eliminated the subsidy to districts.

## Recommendations

The financial analysis indicates the need for several changes to the current charter school law related to funding. The original charter school law, Act 22 of 1997, did not anticipate cyber schools and under Act 88 of 2002, the state has taken control of authorizing cyber charters. However, the state has ignored the financial aspect of cyber charters:

- There is no way to know if the school district payments exceed the needs of the cyber schools.
- Different school districts pay cyber schools differing amounts, despite the fact that the level of services provided are the same for all students.

In addition to the recommendations based on the financial analysis, the analysis of enrollment patterns when associated with the financial

- Payments by districts for regular education students in cyber charter schools resulted in a variance between the lowest paying and the highest paying districts is about \$10,000 in most years. Variances are even greater and very erratic for special needs students.
- Districts are not saving money from charter school enrollments. The charter tuition calculation is the same for both cyber and “brick and mortar” charters. The difference in the calculations is weighted in favor of paying more for charter tuition than is included in actual instructional expense.
- The ultimate impact of substantial employer contributions to the retirement system will substantially increase the tuition paid by districts to charter schools. Even if the state manages to find a way to reduce the impact by half, the costs will still be staggering.

analysis leans heavily toward additional changes. The following actions are recommended:

- The responsibility for funding cyber charters should match the authorizing entity – the state.
- The charter school financial report (PDE 2057) needs to be provided to the sending district(s) annually when filed with the state.
- The state needs to establish reasonable limits on the amount of unexpended funds received from school districts in the form of tuition payments and return the unused balances to the sending districts.
- The state needs to establish an exception to the limits imposed by Act 1 for charter tuition payments, or re-establish the tuition payment calculation.

# Appendix A

## Charter School Tuition and Actual Instructional Expense

24 PS 17-1724 A

(2) For non-special education students, the charter school shall receive for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year, as defined in section 2501(20), [FN1] minus the budgeted expenditures of the district of residence for nonpublic school programs; adult education programs; community/junior college programs; student transportation services; for special education programs; facilities acquisition, construction and improvement services; and other financing uses, including debt service and fund transfers as provided in the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems established by the department. This amount shall be paid by the district of residence of each student.

(3) For special education students, the charter school shall receive for each student enrolled the same funding as for each non-special education student as provided in clause (2), plus an additional amount determined by dividing the district of residence's total special

education expenditure by the product of multiplying the combined percentage of section 2509.5(k) [FN2] times the district of residence's total average daily membership for the prior school year. This amount shall be paid by the district of residence of each student.

(4) A charter school may request the intermediate unit in which the charter school is located to provide services to assist the charter school to address the specific needs of exceptional students. The intermediate unit shall assist the charter school and bill the charter school for the services. The intermediate unit may not charge the charter school more for any service than it charges the constituent districts of the intermediate unit.

Source: <http://weblinks.westlaw.com/result/default.aspx?cite=UUID%28NAE8FAE1034%2D2F11DA8A989%2DF4EECDB8638%29&db=1000262&findtype=VQ&fn=%5Ftop&ifm=NotSet&pbc=4BF3FCBE&rlt=CLID%5FFQLT21481201913154&rp=%2FSearch%2Fdefault%2Ewl&rs=WEBL10%2E03&service=Find&spa=pac%2D1000&sr=TC&vr=2%2E0>

# PDE-363 - Data Entry Sheet

## Contact Information

Fiscal Year of Payments (format: yyyy - yyyy)		-	
School District Name			
County Name			
AUN			
Contact Person			
E-mail Address		@	
Telephone Number and Extension (format: 717-787-5423)		x	

## Average Daily Membership

Average Daily Membership	
--------------------------	--

## Expenditure Data

Total Expenditures	-
1100 Regular Education ( <i>federal only</i> )	
1200 Special Education	
1300 Vocational Education ( <i>federal only</i> )	
1400 Other Instructional Programs ( <i>federal only</i> )	
1600 Adult Education Programs	
1700 Community / Junior College Programs	
2100 Pupil Personnel ( <i>federal only</i> )	
2200 Instructional Staff ( <i>federal only</i> )	
2300 Administration ( <i>federal only</i> )	
2400 Pupil Health ( <i>federal only</i> )	
2500 Business ( <i>federal only</i> )	
2600 Operation and Maintenance of Plant Services ( <i>federal only</i> )	
2700 Student Transportation Services	
2800 Central ( <i>federal only</i> )	
2900 Other Support Services ( <i>federal only</i> )	
3000 Operation of Noninstructional Services ( <i>federal only</i> )	
4000 Facilities Acquisition, Construction and Improvement	
5000 Other Financing Uses	

Source: [http://www.portal.state.pa.us/portal/server.pt/community/financial\\_documents/7676](http://www.portal.state.pa.us/portal/server.pt/community/financial_documents/7676)

# Funding for Charter Schools

## Calculation of Selected Expenditures Per Average Daily Membership

PDE-363 (7/2007)

School District Name	County Name	AUN
Contact Person	E-mail Address	Telephone Number Extension
Signature of Superintendent		Date

Calculation based on budgeted expenditures and estimated average daily membership

**NOTE:** When completing this form, use the most updated financial data and average daily membership for the school year immediately preceding the school year for which payments will be made to a charter school.

### FOR NONSPECIAL EDUCATION STUDENTS

TOTAL EXPENDITURES	_____ (a)
Minus TOTAL DEDUCTIONS (see page 2)	_____ (b)
SELECTED EXPENDITURES (a - b)	_____ (c)
ESTIMATED AVERAGE DAILY MEMBERSHIP	_____ (d)
<b>FUNDING FOR NONSPECIAL EDUCATION STUDENTS (c / d)</b> (SELECTED EXPENDITURES PER ESTIMATED AVERAGE DAILY MEMBERSHIP) _____ (e)	

Source: [http://www.portal.state.pa.us/portal/server.pt/community/financial\\_documents/7676](http://www.portal.state.pa.us/portal/server.pt/community/financial_documents/7676)

## **FOR SPECIAL EDUCATION STUDENTS**

1200 SPECIAL EDUCATION EXPENDITURES	_____ (f)
ESTIMATED AVERAGE DAILY MEMBERSHIP MULTIPLIED BY 0.16 (d x 0.16)	_____ (g)
SPECIAL EDUCATION EXPENDITURES DIVIDED BY 0.16 AVERAGE DAILY MEMBERSHIP (f / g)	_____ (h)
Plus FUNDING FOR NONSPECIAL EDUCATION STUDENTS (from e above)	_____ (i)
<b>FUNDING FOR SPECIAL EDUCATION STUDENTS (h + i)</b>	_____ (j)

Provide a copy of this form to each charter school in which residents of the school district are enrolled.

Source: [http://www.portal.state.pa.us/portal/server.pt/community/financial\\_documents/7676](http://www.portal.state.pa.us/portal/server.pt/community/financial_documents/7676)

Due Date: **August 31**

Return to: Pennsylvania Department of Education  
Division of Subsidy Data and Administration  
333 Market Street, 4th Floor  
Harrisburg, PA 17126-0333

PDE-363  
(7/2007)

School District Name	County Name	AUN
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The following expenditure amounts are to be subtracted from the TOTAL EXPENDITURES reported on line (a). Deduct only the federal portion of expenditures except for the following account codes: 1200, 1600, 1700, 2700, 4000 and 5000.

NOTE: Only deduct the federal portion of expenditures if included in the Total Expenditures reported on line (a) on page 1.

### **DEDUCTIONS FROM TOTAL EXPENDITURES**

1100 Regular Education (federal only)	_____
1200 Special Education	_____
1300 Vocational Education (federal only)	_____
1400 Other Instructional Programs (federal only)	_____
1600 Adult Education Programs	_____
1700 Community / Junior College Programs	_____
2100 Pupil Personnel (federal only)	_____
2200 Instructional Staff (federal only)	_____
2300 Administration (federal only)	_____
2400 Pupil Health (federal only)	_____
2500 Business (federal only)	_____
2600 Oper and Maint of Plant Services (federal only)	_____
2700 Student Transportation Services	_____
2900 Other Support Services (federal only)	_____
3000 Oper of Noninstructional Serv (federal only)	_____
4000 Facilities Acquisition, Constr and Impr Services	_____
5000 Other Financing Uses	_____
<b>TOTAL DEDUCTIONS</b>	_____

Source: [http://www.portal.state.pa.us/portal/server.pt/community/financial\\_documents/7676](http://www.portal.state.pa.us/portal/server.pt/community/financial_documents/7676)

# Actual Instruction Expense

**Actual Instruction Expense** - Includes all general fund expenditures as reported on the annual financial report by the school districts except those expenditures for health services, transportation, debt service, capital outlay, homebound instruction, early intervention, community/junior college education programs and payments to area vocational-technical schools. Deductions are also made for selected local, state and federal revenues and for refunds of prior year expenditures and receipts from other local education agencies. It is calculated in accord with Section 2501 of the "Pennsylvania Public School Code of 1949."

[http://www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/glossary\\_for\\_expenditures/509030](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/glossary_for_expenditures/509030) PDE retrieved 6-9-10.

(11.1) "Actual Instruction Expense per Weighted Average Daily Membership." For the school year 1966-1967, and each school year thereafter, the Superintendent of Public Instruction shall calculate for each school district the actual instruction expense per weighted average daily membership for each district pupil. The actual instruction expense shall include all General Fund expenses of the district except those for health services, transportation, debt service, capital outlay, homebound instruction, and outgoing transfers to community colleges and technical institutes. From this cost shall be deducted the amount received from the State for driver's education; special class operation; vocational curriculums; area vocational technical schools; payments of tuition by district patrons, parents, the State and Federal government; and all moneys received from the State or Federal government under Public Laws 89-10 (Elementary and Secondary Education Act), [FN8] 88-452 (Economic Opportunity Act), [FN9] and 87-415 (Manpower Training and Development Act) [FN10] and for projects under section 2508.3 of this act. [FN11] The actual instruction expense so determined, when divided by the weighted average daily membership for the district shall be the actual instruction expense per weighted average daily membership.

<http://weblinks.westlaw.com/result/default.aspx?cite=UUID%28N8C3FC3B082%2D9511DDBC56A%2D9589E5F8649%29&db=1000262&findtype=VQ&fn=%5Ftop&ifm=NotSet&pbc=4BF3FCBE&rlt=CLID%5FFQRLT75567024996&rp=%2FSearch%2Fdefault%2Ewl&rs=WEBL10%2E05&service=Find&spa=pac%2D1000&sr=TC&vr=2%2E0> Retrieved 6-9-10

Pennsylvania School Boards Association



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The PSBA Education Research & Policy Center is an affiliate of the Pennsylvania School Boards Association. The PSBA Education Research & Policy Center is dedicated to the purpose of in-depth research and analysis of issues affecting public education in Pennsylvania.

Questions about the contents of this report may be directed to: PSBA Education Research & Policy Center, (800) 932-0588, ext. 3351.